De la Madrid State of Nation Address
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[State of the nation address by President Miguel de la Madrid at San Lazaro Legislative Palace in Mexico City — live]

[Text] Honorable Congress of the Union, Mexicans:

During [words indistinct] 5 years, the [words indistinct] the government we have tenaciously worked together to overcome enormous difficulties. We have confronted the harshest economic crisis in our contemporary history with a deep sense of renewal. We pledged to wage a hard battle for the nation not only to rein in adversity but to modernize our institutions and economy.

We have done this, reaffirming fundamental principles and values; and we have managed to do so in a climate of freedom, social peace, stability, and growing solidarity among Mexicans. Upon confronting challenges of unprecedented magnitude, we flatly refused to experiment with the nation's destiny. Governing the great Mexican people has demanded constant political prudence to perceive what is advisable and what is inadvisable, and thus be able to perceive and prevent greater evils. This has also demanded that we act firmly and quickly to face the unexpected. We rejected the position of tolerating problems, and we have at all times decided to [word indistinct] change rather than accept it as misfortune.

With responsibility and prudent audacity, we have flung ourselves into the huge task of national renewal. In the complex and uncertain world in which we live, we have waged the necessary battles. We have done so with the certainty that we have the strength to win them, with unwavering faith that Mexico is greater than its problems. We have used the power of action to give shape and meaning to events with the help of reason and social consensus.

This report corresponds to a period that includes the end of a year of major economic events for Mexicans. In 1986, the international price of oil plummeted, and our volume of exports dropped. In addition, we experienced a grave deterioration in the terms of exchange for other raw materials. Our exports produced less foreign exchange, and we did not have access to foreign credit. The amount of revenues that we no longer were earning was higher than the value of the country's entire agricultural and livestock production.

Compounding these calamities, we would have to mention the economic aftermath of the 1985 earthquake, which was still being felt last year. Within the context of 4 years of struggle and sacrifice to resolve our problems, this economic setback, much greater than the 1982 problems, caused a new economic crisis that many people regarded as explosive. Forecasts inside and outside the country concluded that this situation was unmanageable. Massive strikes, widespread unemployment, and a hyperinflationary spiral were predicted. It was said that we would have fragmentation and recession.

Let us understand that challenge and its circumstances in order to assess what we have done. Facing difficulties of such dimensions, the only thing to do was to act decisively and strongly. The Mexicans' efforts to move ahead was not inhibited or slowed by unfounded fears. We increased our actions to counter the immediate impact of adversity and simultaneouly to provide a strong remedy for our difficulties. We acted opportunely to implement the programs that we had announced. All of us Mexicans participated. All of us deserve the credit.

The economic policies that were implemented prevented society from suffering shortages, brought the necessary imports, and achieved the highest volume of non-oil exports — surpassing even oil exports. The productive apparatus and the financial sector felt the impact caused by an acute shortage of resources. However, they continued operating in an adequate manner. The flexibility of the adopted control measures prevented the sudden changes and their consequent social costs. The handling of the economy led to a significant return of capital. The country's monetary reserves registered a substantial increase.

There already are encouraging aspects in this year's outlook. The international price of oil is gradually increasing. The worst aspects of the deterioration in the terms of exchange seem to be behind us. Tourism is expanding; non-oil exports are maintaining their important dynamics of last year; during the year's 1st quarter, renegotiated the foreign debt.

This renegotiation is regarded as most advanced in international circles. Our international reserves continue growing; deposits in commercial banks have begun to recover. The recession shows signs of having bottomed out; we have already begun a gradual reactivation. The inflation rate continues to be high, but it is not uncontrollable. Additional measures have been adopted to control its pace. What encourages me the most is that we are bequeathing an increasingly positive atmosphere among the various sectors of society, and their expectations are increasingly more optimistic.

As for social development, we have also begun a nationwide renewal program. It is based on structural changes and institutional transformation aimed at upgrading the people's welfare and mitigating the negative impact of the economic crisis. Only with an institutional and democratic existence, and a healthy, productive and efficient economy, can we achieve social justice, which for generations has continued the [word indistinct] objective of Mexicans. The permanent [word indistinct] amended Constitutional Articles No 4 and 123 in order to guarantee the right to housing, health, and more effective protection of workers' wages.

These reforms have led to actions that have permitted the government to give a clear social orientation to its policy. In circumstances in which the working population has grown at the highest rates in our history, we

have continued the task of meeting the increasing needs for food, education, housing, health, and decent environment. We have done so with less resources but with greater effectiveness and the strengthening of the bases for lasting justice.

There is a clear social objective in the national renewal. The productive sector and employment have been protected. The supply and distribution of basic products have received special attention. There has been progress in the improvement of the unequal conditions of trade between the cities and the countryside. Great support has been given to agricultural production and organization. As a result, we have achieved self-sufficiency in wheat, rice, beans, and sugar; and we have a surplus in agricultural foreign trade.

There can be no sustained growth or lasting social progress without a structurally healthy and strong economy. That is why the economic policy in the last 4 years has been based on this basic concept. To overcome imbalances caused by structural problems, measures must be formulated to reduce economic instability and the resulting social cost of the crisis through actions that attack its essential causes.

Since May 1983, the National Development Plan thus defined a strategy whose general concept has not changed, despite the adverse international situation. Economic reorganization and structural change have been two essential elements of national renewal. The actions we have taken have permitted a considerable improvement in public finances. Prior to the payment of interest, there is an unprecedented surplus that is the result of the reduction of public expenses and the effects of the beginning of fiscal reform.

We have continued with our policy of releasing from government control [desincorporacion] those institutions that are neither strategic nor of priority importance while at the same time strengthening those which are. With the financial resources and the administrative capacity made available by the disincorporation process, we selectively supported priority expenditures programs, and we have firmly begun the reconversion program in the petroleum, electricity, steel, sugar, shipbuilding, and fertilizer industries. Important modernization programs in the railroads and the marketing and supply system for basic products are also under way.

The rationalization of the public sector's tasks has been based on a clear and modern definition of the role the state must play in the economy and of the objectives that must guide its action. Mexican society does not want a weak state with chronic deficits and whose dimension and indiscriminate interventionism would detract from its capacity to take effective actions and provide clear leadership. It wants a strong state that will lead the country, will respect and stimulate the Mexicans' freedom and capacity for innovation, and will fulfill its duty to promote the general interest with efficiency.

We continue the intense process of rationalization of trade protection to promote greater efficiency and competitiveness in the national industry. In 1982, all foreign trade was subject to quantitative pressures and to official prices. This entailed an excessive level of protectionism that adversely affected our economy's efficiency and competitiveness. The national industry is now protected by an adequate exchange rate, a rational tariff structure within an updated legal framework, and a modern administrative apparatus that permits Mexican producers to defend themselves from unfair trade practices. With the confirmation of our adherence to the GATT, continuity in our economy's trade opening process is ensured.

The effort to correct imbalances and to deeply and positively change them has led us to give the greatest importance to decentralization and to the establishment of a national system of democratic planning. With decentralization we balance the development of the various regions of the republic and we transfer resources, areas of activity, and decisions. We have turned planning into an effective means for political consensus, leadership, and intergovernmental coordination and into a permanent channel to express society's demands, to promote participation, and to achieve social consensus.

Nevertheless, we must acknowledge the unfavorable social impact this economic situation provoked. Real wages dropped, the high inflation especially affected the weaker groups, standards of living — which already had been reduced by the previous crisis — were further reduced, and society experienced a period of anguish. However, although there was a drop in production, it did not reach the depth estimated at the beginning of this crisis. Inflation did not run away. We have prevented a substantial increase in open unemployment. The number of workers enrolled in Social Security continues to grow. We prevented the weakening of the national economy.

Let us evaluate this effort in the face of the challenge and strengthen our confidence, for we see the feat that has been achieved. What I say is not a glorification of the government. It is a just recognition of all Mexicans. Definite political concepts embody the values and principles of the Mexican revolution contained in the Constitution, which assimilate the demands of the biggest social groups and which at the same time have permitted fundamental ideas for the nation to be adopted in accordance with the country's new reality. Guided by these concepts, we reaffirm the validity of the national project and the capacity to renew the political system. We set objectives and strategies. We undertake reforms and carry out actions. The government has maintained a consistent line. It has said what it wil do, and it has persevered in this. Renewal entails an orderly and effective change.

In Mexico we have a strong tradition of viewing the law as an instrument for social improvement. Laws should always reflect the new reality of the country and at the

same time establish the foundations for new political, economic and social transformations. It is necessary to have a true de jure state in order to accomplish the important qualitative changes that will lead to the national reorganization process. Since the beginning of our administration we have been carrying out extensive judicial reforms according to these principles in order to establish the framework for national reorganization. Our constitutional and legal order have been enriched. The fundamental values have been reaffirmed. Starting from that point, we have defined the mechanisms and areas of responsibility so the state can more efficiently fulfill its leadership duties and so society may exercise its rights and develop freedom more effectively.

We have decided to seek support in the institutions and at the same time to improve them for a better and richer democratic life. We have not abandoned the revolution's fundamental political principles. However, we have changed some attitudes and ways of conducting politics. We have established dialogue and participation — which have been widely accepted — as a permanent process for negotiation and the orderly resolution of conflicts. Institutions have been strengthened so that they continue to be at the hub of the country's development of the harmonious coexistence among Mexicans. As part of the national reorganization process, we proposed modifications to the Constitution which would expand political participation and the citizens' confidence in the suffrage process. We introduced changes to the electoral process to increase its purity. We facilitated the expressions of the various ideologies and increased the quality and confidence of the citizens' electoral registry. We have increased citizen participation and representation in Mexico City and have tried to settle the disagreements at a new general electoral tribunal.

Peace, freedom and respect for all groups and political views are the cornerstone of true democratic life. Political parties in Mexico can freely develop their activities. They can make proposals, discuss them, report and criticize without restrictions, thus enriching our pluralism and our people's wisdom. The strengthening of the separation of powers is part of the effort to improve our political life and results in a balance essential to a democracy. The number of members of the legislative branch will increase. There will be two terms of ordinary sessions so that members will have more time to perform important duties. The judicial branch has been strengthened with the reforms that give the Supreme Court back its original duty of being the final interpreter of the Constitution. In addition, we have expedited the administration of justice, which has helped to maintain the social peace the country is enjoying.

The moral renovation has established new standards of conduct in public administration, has simplified and expedited administrative processes, and has also helped to establish greater confidence among public sector employees, as well as among the citizens. The federal arrangement has been revivied in an outstanding manner and this has strengthened the state and municipal governments, which are also part of the democracy in Mexico. The decentralization of authority, power and resources has allowed decisions to be made closer to the affected communities. We are achieving a democracy that covers more territory and is more effective, and we are obtaining greater efficiency in the public administration.

Our borders, along with the rest of the country, are at peace. There can only be a [words indistinct] and authority on the international scene. We have also renewed our foreign policy, adapting it to the internal conditions and circumstances prevailing in the world. According to our traditional political principles and international law, we have adopted an active position that not only defends but also actively promotes Mexican interests abroad with firm and practical ideas.

Mexico's current difficulties, like those of the past are yielding not to inertia but to the determined action of the people and the government. The results are obvious. We are fully enjoying our freedoms and exercising our rights. The national problems of coexistence are being resolved through dialogue and negotiation. The essential public and social services are operating adequately and their scope and quality have increased. An atmosphere of peace and work prevails throughout the entire national territory.

The crisis we are experiencing is primarily urban, financial and industrial. Therefore, its effects are more intense in the nation's capital. Most states in the country have maintained their levels of public and private investment, and in some cases there has been greater activity. At this moment, intense promotional and economic development activities are taking place in many regions, social development is being promoted, jobs are being created, and we are beginning a new stage of overall development.

We are sure that the [words indistinct] process is compatible with the fundamental principles and values of the revolution, and with the needs of the country, and that it responds to the people's demands for change. We are aware that change is difficult, that deep changes are not always internalized or realized. Inertia and old habits make it easier to preserve than to transofrm, and to continue on the same path rather than make changes. The people's task of finding the right balance between security and innovation demands a great deal of wisdom. Mexico undoubtedly has it.

We Mexicans are promoting political, economic, and social bases to have a modern, stronger, and more just nation capable of defending its place and its own personality in the world. The past few years have been year of sacrifice. However, we have not have accepted adversity with resignation. We have made a great effort. We still require perseverance and determination to meet the goals we have established. There are many challenges. Let us cast away pessimism, desperation, and nostalgia, and let us fight against anything that may cause fundamental divisions endangering Mexico's social peace and

political stability. The strategy of structural changes improves and strengthens the bases of our economy. We will resolve pending problems. Economic factors have their pace and balance. This year, we have not impatiently tried to force results, as we would have risked wasting the Mexican people's efforts and sacrifices. We govern to consolidate our achievements, not to risk them.

History has shown us that the great changes that have changed and strengthened Mexico have taken place within the revolution's programs, through political and social institutions created and perfectioned by Mexicans, and within the Constitution's framework.

We are renewing and strengthening the nation. To do this, we have institutional strength, men, laws, resources, and the determination to preserve the state of law, perfect our democratic life, and fully guarantee national sovereignty and respect for individual liberties, properties, and rights. We must continue building the structural foundations for a healthy, vigorous, and productive economy that will distribute national wealth more equitably so we can achieve a more egalitarian and just society. Based on a popular mandate and on a political decision, we will continue renewing the nation democratically and legally. Mexico's institutional [word indistinct] enables us to overcome difficulties and to change strategies and tactics, while maintaining the course of our history. Material gains are of little value without democratic institutions and social progress. Only institutions having overall development as their goal can bring security and well-being to all Mexicans. Therefore, we are working on all fronts with more knowledge and better strategies. Today, no one doubts the nation's viability. The world respects our achievements. No all our problems have been solved; however, we are more aware of what we want to do and how we should do it. The political, economic, and social changes we have undertaken are not the result of spectacular actions. They are the result of persistent efforts and daily work. They are the result of firmly and calmly defending the country's complex and urgent problems step by step, area by area, and point by point.

Mexico is a mature nation that through adversity has learned the virtue of strength and the value of truth to stay united. We have faced problems with determination and without demagogy; we have worked with direction, social guidance, consistency, and a clear sense of the modernization we Mexicans want. We have invariably followed the Constitution and the mandate expressed through the people's will.

Mexico advances with harmony, setting the pace of political, economic, and social actions. This has guaranteed balance and stability, strength in our international relations, and domestic solidarity. We are convinced national renewal is the path to be followed to maintain unity, protect our sovereignty and independence, strengthen democracy and liberty, and comply with the constitutional mandate of justice and well-being for all Mexicans.

Today, we have better prospects. We are fully immersed in a process of change in politics, the economy, society, and culture. This change is not only a government goal: It has become a matter of awareness and a social demand. A new, stronger Mexico is emerging.

With talent and work through many decades, we Mexicans have built a solid political system with a great capacity for adaptation and change. Based on our political system and its institutions, we have effectively managed to resolve the various problems caused by the pace of development and by the country's growing social and political complexities.

Today, we are able to face the crisis, and we are conducting a profound national renovation that strengthens democracy and guarantees the nation's sovereignty. These have been days of efforts, of [word indistinct] and results. Today's society is more active and involved. The government is more modern. A pluralist state like Mexico, sensitive to the current changes, reaffirms democracy as the permanent guide of its actions. That is why in this period we are reporting on, we promoted several initiatives to open more areas for political participation.

For any reform to be lasting and to have society's support, it must be analyzed, discussed, and criticized by all social groups. For this reason, the amendments to the Constitution concerning the organization and operation of the congress of the union, the creation of an assembly of representatives for the Federal District, and the promulgation of the new federal electoral code stemmed from an ample widespread popular consultation, which involved the participation of parties, national political associations, social organizations, academic institutions, and citizens in general.

Everyone had absolute freedom to voice and defend their ideas and stands, and their opinions were heard. Everyone was consulted, and the majority decided. That is the way democracies operate. The reforms that were approved maintain a mixed electoral system that integrates an effective majority with the representation of the various minority views, without affecting the people's will or eliminating the political forces.

The Chamber of Deputies will change the number of seats proportionally distributed, which will better reflect the pluralistic nature of Mexican society. The minority parties' participation in the Chamber of Deputies will increase, as they will be entitled to at least 30 percent of the total number of seats.

In the Senate, we are returning to the original system, whereby half the membership will be elected every 3 years in order to guarantee the continuity of legislative work and to have greater participation by the senators in the country's political life.

The political parties play an important role in the electoral process. The Constitution grants them the title of institutions of public interest. They have their rights,

but they also have obligations and responsibilities. Democracy so demands. The federal electoral code increases their prerogatives, participation, and guarantees in each phase of the electoral process. They are given more access to the social communications media. In addition, the code facilitates the formation of coalitions, and stimulates similar political forces to find mechanisms necessary to do so.

[Words indistinct] its tactics of struggle, this frequently arouses emotions that can lead to erroneous interpretations of the electoral processes. The government wishes to maintain and reinforce the confidence of the citizens in voting. In order to guarantee better, impartial, legal, and honest elections, an autonomous Electoral Disputes Court will be established to rule on appeals. The court will be made up of well-known and prestigious lawyers who will be appointed by this honorable congress from a list of candidates proposed by the political parties.

Because of its size, population density, and the fact it is the seat of federal power, Mexico City is a very complex city, both in administering public services and in integrating its authority. Here, we cannot apply formulas that are useful in other cities.

In this regard, the Permanent Constituent Assembly [Constituyente Permanente] recently approved the proposed constitutional amendment creating a representative assembly for the Federal District. With this amendment, the mechanisms for citizen representation in the capital of the Republic were expanded. This way, by creating a new institution for political rights, we met a demand that was stressed during my political campaign and that was confirmed during the consultative hearings with the people. Electoral amendments constitute a significant step forward in improving our democratic regime. Impartiality during elections is assured. The government, parties, and citizens are equally responsible for abiding by every step required by the electoral process, as befits a mature and pluralistic society such as Mexico's. We have improved the Mexican electoral system.

With this new spirit, the [word indistinct] electoral commission supervised the local commissions during the elections held in this period so that these commissions strictly abided by the guidelines on this matter. Elections were held in the states of Veracruz, Aguascalientes, Tlaxcala, Sinaloa, Puebla, Guerrero, Tamaulipas, Higalgo, Baja California Sur, Quintana Roo, Nayarit, and Mexico, with total normalcy. Also, 505 municipalities and new [word indistinct] were elected, and 12 local congresses were [word indistinct].

Public security is the government's priority. We know that the great changes that are expected in the world also bring about big changes in the people's pattern of [words indistinct] that affect social conduct. These factors come about with increased urban growth, increased population growth, effects of the country's [word indistinct] crisis, and the lack of attention that the police bodies have received over many years, have given way to criminal and antisocial activities which damage our society's coexistence.

The process of national renewal demands modernization of our system for [word indistinct] and dispensing justice and demands that our society have more professional and efficient police forces. It also requires great civic responsibility and conscience. Public security is everyone's business. Because of this, in close coordination with state and municipal governments and social representative groups, we set out to work hard to dignify and professionalize the judicial and police services. To this end we have started a coordinated federal and local security system to offer citizens real protection in an environment of peace and tranquillity. Our aims are still attained with [word indistinct]. I am deeply concerned over public security problems. I know that there are still serious deficiencies, hence our intentions to renew efforts to [words indistinct]. I again ask for the assistance of the state governments and the solidary and determined participation of society as a whole.

The separation of powers is an essential democratic value. In Mexico, we perfect and strengthen this separation permanently to ensure that relations among them are marked by close cooperation and mutual respect. Special mention goes to the reforms which confers budget autonomy to the federation's legislative and judicial powers.

The unlimited respect for all forms of freedom of speech is a basic characteristic of a democratic regime. There cannot be authentic democracy if the truth is distorted or hidden.

Society needs to know the truth. Media have the great responsibility of informing the people objectively and timely and guiding them through critical analyses and diversified opinions.

In the last few years, we have made sure our media reflect our society's political pluralism. We need to continue democratizing information. We are still determined to modernize and rationalize the government media. As for television and radio systems, we increased the number of relay stations, especially in border areas, in order to broadcast programs highlighting our cultural and historical values and the country's traditions, thus reinforcing our identity, independence, and sovereignty.

Once again we reiterate that no economic growth is capable of meeting the needs of a society whose population growth rates are out of line with its development capacity, rates like those Mexico has had in the last few decades.

Mexicans already understand the problem of population growth, and people are more aware of the need to control it. The government has used all available resources to reach that goal — fully respecting people's freedom — by persuasion, not by imposing itself, and by always respecting Mexican families' dignity and freedom.

Education and social communication campaigns are coming true. Responsible paternity is increasing and the Mexican couple is now informed and plans its family freely. Health institutions will continue giving the support and guidance society demands. The achievements are already significant, but we must keep our programs working.

We can reach the goal of halting the population growth at 1.9 percent by the end of this administration. We began this presidential term with a growth rate of 2.6 percent.

Although population grows at a lower rate than some decades ago, today there are approximately 8 million more Mexicans than at the beginning of this administration. The 1980's demographic explosion has naturally put pressure on food, education, and health services.

Under normal circumstances, that would represent in itself a very big challenge. It is, therefore, even more significant under conditions of lack of resources. Thus, we have introduced demographic criteria as basic components in the planning of our economic policy, which establishes links among the rural areas, territorial distribution, and population growth. That policy seeks to meet the basic needs of the population, especially of the new generations to guarantee a worthy future.

We have done this through various policies including programs for women and youth. We cannot evade the need to improve the territorial distribution of the population and to link and implement our policies in terms of our population, its size, age, and the standard of living it deserves and demands.

International migration, which occurs especially between bordering countries with different levels of development, has increased in Mexico, because of our economic problems and our neighbors' demand for manpower.

The high U.S. wage structure has always attracted our compatriots, who unfortunately do not have well-paid jobs in their hometowns.

These are hard-working, well-intentioned Mexicans who through their efforts contribute in a significant way to the economy of several U.S. regions. However, on many occasions, this contribution is not recognized, and they are treated in a discriminatory manner. Our position against this situation is invariable: We demand respect, just treatment, and fulfillment of the law. We will continue insisting, using all the legal, political, and diplomatic instruments within our means, that the U.S. Government ensures that our compatriots who are there will enjoy the guarantees and prerogatives that they deserve as people and that they have earned through their work.

Mexico continues to fulfill its humanitarian obligations by treating the Guatemalan refugees with care and respect. We have not observed a significant increase in those migratory groups recently. We have reached agreement with the Guatemalan Government on methods and programs for their gradual repatriation with absolute respect for the free decision of the emigrants. The UN refugee organizations continue to help us with those programs.

The devastating earthquakes of 2 years ago made Mexicans aware of the pressing need to be prepared for the possibility of other natural disasters and be capable of meeting needs timely and effectively. Both the society and the government have been consolidating a national civil defense system that establishes a number of ordered structures, relations, links, methods, and procedures, and to which the three government branches and various social groups contribute. That system should prepare us for any kind of natural disaster. The making of the national risk map is the first significant contribution of that system.

All de jure states must be based on a kind of order that gives citizens security before government actions, guarantees their rights, freedoms, and property, and corrects any violation of the law.

To strengthen our de jure state and protect individual rights more efficiently, we have been conducting a large reform that strengthens the federal judicial branch as well as the federal institutions. Public employees of the three branches of the union and the states as well as bar associations, and citizens in general have contributed to that reform.

Despite the economic problems over the last few years, the number of courts of the federal judicial branch has increased by 40 percent in this administration. The salary of judges and magistrates has been substantially increased in line with their high responsibilities. We have considerably reduced the average amount of time used up in court proceedings. The presidents of the supreme courts of justice around the country over a year ago noted the need to lay the constitutional basis for extensive national judicial reform. In October 1986, a reform package for Articles 17, 46, 115, and 116 of the Constitution was proposed. We thereby laid the foundations for new reforms of the Mexican judicial system. With the reforms to Article 17 of the Constitution, the individual rights and freedoms will be guaranteed in a more efficient manner. The new contents of Article 116 specifically applies the separation of powers principle to all states and applies to the states the federal guidelines for the organization of federal judicial entities and for guaranteeing their independence and autonomy. It states that higher courts in each state shall appoint judges and that magistrates shall be irremovable. There is now a mechanism to improve the administration of justice.

The Supreme Court of Justice sometimes performed the functions of a lower court — unbecoming a constitutional tribunal — because of the old jurisdiction system. On many occasions lower court officials became the supreme interpreters of the Constitution. It was important for the nation to change these practices. The

Supreme Court needed to recover its original role as the supreme interpreter of the Constitution through the implementation of a new jurisdiction system. With this objective in mind, a constitutional reforms package was submitted which modified the old jurisdiction distribution of the federal judicial branch. The Supreme Court of Justice was given exclusive jurisdiction over federal and local laws and over treaties and rulings. Circuit and district courts were given jurisdiction over cases of constitutional violations by acts of a governmental authority.

The reorganization of the country will affect all areas. We shall modernize all judicial institutions to truly improve the country.

Reforms were also made to the federal code of criminal procedures and to the organic laws of the Mexico City attorney general's office, to Mexico City's courts, and to the bankruptcy and payment suspensions laws.

With these reforms we hope to have a stronger judicial branch with a greater capability to improve the quality of Mexican justice and maintain the state of legality. Bringing justice closer to those who demand it is both a commitment and a necessity. The decentralization of the administration of federal justice through the system of circuit delegations represents the most extensive organic and operational modification of the republic's Attorney General's Office. This decentralization is complemented by greater territorial coverage by the Attoreny General's Office agencies and by the establishment of a roving attorney general's office. Closer coordination between local and federal authorities has been promoted by establishing the national system of administering justice. Progress is being made in the task of increasing the morale and professionalism of public servants who have to dispense justice on the federal level. Currently 65 percent of the Federal Judicial Police vacancies are filled with graduates of the Federal Institute of Penal Sciences; 40 percent of the total force of the federal attorney general's office and 45 percent of those who are working for the institution have been apointed on the basis of competitive examinations. The administration of justice is being modernized along with the country.

Drug trafficking is a crime that goes beyond the borders of a single country. Its proliferation, the extent of its connections, and the complexity of its network of interests force all the nations to take domestic measures and to coordinate actions to fight it. The danger to society of it becoming a factor of political disorder, as has happened in other places, forces us to redouble efforts. We have already done much in this regard. We do it because we so desire and because we have a committment to our people. The joint and coordinated action of the Armed Forces and the attorney general's office have allowed us to increase the effectiviness in destroying opium poppy and marijuana plantations and in seizing cocaine. The same can be said of the arrest and convictions of individuals for crimes against health. Drug trafficking is an international crime. Mexico is a transit point between the producers and the consumers. For this reason, as long as serious and profound coordinated measures are not adopted among the involved countries to combat drug trafficking throughout its entire chain, the isolated efforts of Mexico and other countries will be insufficient.

It is necessary that each government carry out a program proportional to the one we are carrying out. As long as the demand for drugs in the consumer markets is not curbed by means of campaigns and firm actions of more definite opposition, there will be no final solution to this serious problem.

We promoted and attended various international meetings to provide reports on the results of the campaign against drug trafficking and to exchange experiences.

We organized the first regional attorney generals meeting, in which 13 Latin American countries participated. Similarly, we participated in the international conference on the illegal drug trade and drug abuse organized by the United Nations in Vienna last June. At that conference, participants analyzed drug traffic characteristics and problems as well as drug addiction.

Compared with that of other countries, Mexico's drug addiction problems are not too serious. However, we took preventive measures and we treat drug addiction cases through a community program called drug addiction treatment. Approximately 1,351 committees and subcommittees throughout Mexico participate in that program.

The work of the Mexico City attorney general's office is continuously revised and changed by the state and the community. We have begun to gradually modernize that institution's rules to adapt it to the current situation.

We established a permanent program to increase the professionalism of public employees by introducing new technical and scientific specialties. People are hired after they have passed their exams and have competed against other candidates.

The program of decentralizing the attorney general's office began in four areas of Mexico City. That program seeks increased efficiency and coverage, a more balanced distribution of work, and more adequate solutions to problems.

A democratic state demands a capable public administration willing to serve the community. Therefore, from the beginning of my administration, I proposed constitutional and legislative changes to provide the moral renewal — a reiterated social demand — with an adequate legal framework to support the fulfillment of the obligations acquired by the executive branch.

That reform was included in a general concept of the supervision of the federal public administration that is based on self-control and internal supervision. Those mechanisms are properly integrated and represent neither a burden on nor an obstacle to the development of

government activities. Through those mechanisms, we supervise the management of the country's heritage by high-ranking public officials every year.

All parastate enterprises undergo external auditing. The fulfillment of their goals and programs is assessed, and the purchases the government and parastate enterprises make abroad are carefully reviewed. Current expenses are supervised daily, and most of the public works and acquisitions are submitted to applications and bidding. In short, we have made advancements in the mechanisms for permanent surveillance and prevention.

We have eliminated nepotism and excessive gifts for public officials. We have listened to and analyzed complaints, criticism, and dissatisfaction and have applied sanctions when necessary. We have given more autonomy and freedom to parastate industries, but we continue supervising productivity indicators and self-criticism.

We did not and will not stop fighting inefficiency and waste of public resources. With the advancements made in the career civil service systems, we are seeking to increase the efficiency of federal personnel through adequate motivation and training. Because of the basically preventive nature of the moral renewal, we must not judge its results by the number of public officials who have been sanctioned by or denounced before the attorney general's office and not even by the direct savings obtained through the application of some of its features.

The true advancement of the moral renewal is reflected in a public administration that follows the law strictly, has more effective control over the management of public resources, and uses more simple, clear, and available procedures to satisfy the citizens' demands.

I am convinced that Mexicans will not go back on our decision to demand adequate, legal, honest behavior from public officials. I have given precise instructions to those responsible for controlling public resources to manage more carefully to prevent the diversion of funds to projects other than those authorized by the distinguished Mexican Congress, to make sure that the public works programmed by the current administration are completed on time, and that the quality specifications are met.

We want our authorities to make sure those projects scheduled for completion after the end of the current administration are completed as planned. The authorities should not allow the beginning of new projects until the current ones are completed, and they should see that preservation and maintenance receive priority treatment.

We are taking measures to prevent public officials from acting illegally or slacking off toward the end of this administration. We will continue working with devotion and dedication by properly handling the resources with which society has entrusted us. We will reduce neither discipline nor supervision.

We must maintain a good image. All Mexicans are proud of our Armed Forces. Because of the latter's pure nationalism, deep commitment to service, and constant efforts to train and be more and more professional, the nation acknowledges that they are the best guarantee to preserve and strengthen Mexico's sovereignty. Our government has taken care to update the country's Armed Forces by giving to them the leadership and resources necessary to ensure their constant improvement. Because of this, during the period covered by this report we continued to update the facilities and equipment of the Mexican Army, Air Force, and Navy. In a special way, we have tried to train the Armed Forces at a regular pace. The new law updating the organization of the Mexican Army and Air Force has been promulgated. Our firepower is now much greater. New battalions have been formed in accordance with the country's increased population. Better facilities have been built. We have updated the military communications system and the military administrative system. We have redefined regions and created Army corps. We now have vehicles available to immediately deploy troops to parts of the country where the nation's security so requires. The Armed Forces participate in the country's restoration. We have completed facilities for the production of weapons, ammunition, clothing, and aviation equipment. I hereby report that, thanks to this, all of the so-called light materiel is now supplied by the military industry. This has significantly lowered our dependence on foreign products.

As for the military naval industry, surface ships and aircraft continue to be manufactured, the most important of which are patrol ships and [words indistinct] the (?Tomahawk). To guarantee the best, permanent military training, special emphasis has been made on the improvement of the Military University, the heroic Military Naval School, and other training institutions. As fair compensation for the Armed Forces' efforts, we have adjusted their salaries. Special acknowledgement must go to the Army's and Navy's daily struggle. They patrol the entire territory and national waters both against marijuana and poppy plantations and against drug trafficking. Our soldiers and Marines risk their lives to help preserve the youths' health. From this high position, I encourage the Armed Forces to maintain their exemplary posture of determined patriotism and to continue to fulfill the great responsibility Mexico has entrusted to them. They safeguard national sovereignty and the homeland's loftiest values. I am proud of all of you. You are an example of patriotism, liberty, support for the institutions of the republic, and conscientious solidarity with the Mexican people. Above all, Mexico's foreign policy faithfully reflects our legitimate concerns for our sovereignty, the preservation of peace, and the defense and promotion of our nation. International powers show little interest in finding solutions for the grave economic problems and political tensions that reduce and sometimes eliminate the expectations of growth and social justice in developing countries.

In facing a situation of war and political and social crises, Mexico's international policy is based on principles that are in accordance with international law and that regard diplomatic negotiation as the only legitimate instrument to resolve controversies. The soundness, consistency and continuity of our foreign policy have contributed not only to the country's solid prestige abroad, but also to its ability to defend the republic's highest interests. Based on these fundamental principles, we have implemented a vigorous foreign policy. Our actions are guided by national interests and occupy a realistic position in the international and regional context. We take into consideration the conditions of interdependence of today's world, particularly the common interests we have with our Latin American and Caribbean brothers. We share with them a common past, which makes us identify with each other and which encourages mutual understanding. We have similar problems, such as the foreign debt, protectionism, and structural development flaws.

We have succeeded in accomplishing important projects. It suffices to point to the increasing cooperation among our countries, new mechanisms of political understanding, and a modern process of economic unity.

In that context, we include the visits that the presidents of Argentina, Brazil, Costa Rica, Peru, and Venezuela made to Mexico, as well as my visits to Guatemala and Jamaica.

We are pleased to be experiencing a new and fruitful stage in our relations with Guatemala. We are pleased to see its return to a constitutional and democratic government. We have cooperated with our closest sister nation in accordance with its own decisions and with affection and genuine respect for its dignity.

As a result of meetings with Latin American leaders, we established important consultation mechanisms that will contribute to the integration of our political, trade, financial, industrial, scientific, technical, and cultural agreements and to the formation of a truly Latin American community.

We must strengthen Latin American institutions and consolidate means of political understanding. For that reason, my government promoted the meeting of the eight presidents of the permanent consultation group, which will take place in Mexico next November.

That mechanism of permanent consultation and political correlation was created in Rio de Janeiro in December 1986 by the governments of Argentina, Brazil, Colombia, Mexico, Panama, Peru, Uruguay, and Venezuela.

In its first meeting in Buenos Aires last April, we highlighted the essential role played by the Latin American countries' return to civilian rule and democracy in the Latin American process of unity and cooperation.

The Central American conflict is especially important for the Mexican Government. In this nearby region, people are living days of uncertainty and tension. The threat of violence hinders possibilities for social justice and political development. Preventing war and confrontation is an unavoidable need for the Mexican Government. Along with the governments of Colombia, Panama, and Venezuela, we have continued with the peace efforts of the Contadora Group, which have depended on the valuable contribution of the Support Group. We are convinced that only dialogue and negotiation will lead us to a peaceful solution of conflicts.

Mexico has expressed its pleasure over the results of the recent meeting of the five Central American presidents in Guatemala. We will continue supporting their efforts for a negotiated peace in the region through worthy and firm agreements that respect their peoples' legitimate rights and establish firm bases for their social and economic development. The people and the government have efficiently responded to the challenge the earthquakes created aproximately 2 years ago. We had to reorder priorities to efficiently handle emergency tasks and to engage in reconstruction work with a modern orientation.

It was necessary to reconstruct and to renew at the same time, as well as to promote with increasing strength the decentralization of the nation's life.

The reconstruction effort was conducted in a democratic fashion. It was carried out with the active participation of affected people and with the representation of society's most dynamic organizations.

Special departments were created with funds from the federation's budget to determine the funds earmarked for the reconstruction effort and to support the decentralization process. In 1986, these expenditures amounted to 340,438,000,000 pesos and in 1987 to 475 billion.

Temporary taxes were imposed, and this produced additional revenues amounting to approximately 240 billion pesos. To clearly manage both national and international donations, we created the National Reconstruction Fund, which handled approximately 48 billion pesos and $15 million worth of resources. We have painstakingly reported to this Congress and to the people how these resources were used.

The government made urban housing projects a priority; the renewal program was the most important of these projects. In 17 months we built more than 48,700 houses, thus helping 200,000 people who live in the Federal District. This program earned international recognition, expressed by the International Urban Award.

There was also the Emergency Housing Program — Phase I, which benefited [words indistinct] as well as victims that are not from [word indistinct]. This program helped 16,000 families. We continued the Tlaltelolco Democratic Reconstruction Program and the Emergency Housing Program — Phase II. Through the latter program, organized tenant groups that decided to repair their residences and buy them are receiving financing.

The Jalisco [word indistinct] built in June houses for more than 3,000 families affected by earthquakes.

Joint action by society and the state has permitted giving attention to approximately 500,000 persons whose living quarters were damaged by the earthquakes.

As a result of the earthquakes, 300,000 students had to temporarily suspend classes. We repaired more than 2,200 school buildings in the affected areas.

Since we had to give attention to hospitals, we took advantage of this to speed up decentralization efforts in the health sector. In the Mexico City metropolitan area, the Health Secretariat repaired eight hospitals and built five new second- and third-class hospitals. In the meantime, the Federal District Department built additions to eight hospitals. The National Medical Center is undergoing a remodeling and decentralization phase involving five federal hospitals built in the area bordering Mexico State and five regional medical centers in Leon, Puebla, Veracruz, Cuidad de Obregon, and Merida.

The government recognizes that thanks to the effort of all social groups — earthquake victims, workers, professionals, builders, businessmen, public employees, and a large number of social organizations — we have been able to meet the goal: to rebuild and renew.

The origins of the crisis, whose effects we are still suffering, lie in structural factors. We identified its main causes in December 1982. These causes were: insufficient domestic savings, a lack of competition in the country's productive apparatus, and an imbalance in the development of our agricultural, industrial, and commercial sectors. There was also an imbalance between the rural and urban sectors, as well as between the center of the country and the interior.

We increasingly prioritized structural changes to fight these phenomena and to improve and strengthen the bases of our economy in order to establish a continuous development that is more efficient and just.

Our efforts to change state structures have covered many various sectors of our economic life, and center on three basic areas: The release of nonstrategic, nonpriority public institutions from goverament control, industrial reconversion, and rationing of trade protectionism. The progress in this area, in which results reach fruition in a gradual manner, shows the continued perseverance with which we have carried out the changes.

We have introduced in-depth changes for the streamlining [saneamiento] of public finances. We adopted a sweeping fiscal reform that is reducing indebtedness and increasing capitalization of enterprises. We (?revised) the structure of prices and rates of goods and services supplied by the public sector in order to (?pinpoint) costs without transferring inefficiencies and to promote a better allocation of resources. We have maintained budget discipline and reoriented public spending in accordance with the country's new development priorities.

The state retains direct control over the activities [word indistinct] in the Constitution as strategic or defined as priority activities in our laws, plans, and programs. Based on this principle, we have carried out a broad reorganization of the public sector through the liquidation, sale, merger, or transfer to state or municipal governments of nonstrategic and nonpriority enterprises. Thus, the public sector has totally withdrawn from the automotive, pharmaceutical, and petroleum byproducts business as well as various activities in the manufacturing industry such as spare parts, bottled goods, textiles, and household goods.

Likewise, we have substantially reduced our share in the tourist and recreation business. Today, the parastate industrial sector is active in only 13 production areas rather than in the 28 areas in which it was active at the beginning of this administration.

With the help of the financial resources and the administrative capacity made available because of this decentralization, the industrial conversion of strategic and priority enterprises has been initiated in order to [words indistinct], to increase efficiency and productivity, to open new plants, and the state's economic regulation [rectoria] is effectively bolstered.

A fundamental aspect in the process of structural change is the rationalization of protectionism. In the past, substitution of imports enjoyed excessive protection. Currently, without exposing national industry to foreign competition in a blunt and unexpected manner, we must use to a greater extent the protection afforded by an adequate rate of exchange and resort to more effective, more equitable, and less discretionary commercial tools. This will make it possible to increase the efficiency of production machinery for the good of consumers and to make exports more competitive.

During this administration, we have been gradually replacing prior import permits with a speedier, equitable, and efficient system based on tariffs. In 1982, our entire foreign trade was subject to quantitative restrictions. In view of this situation, we began a process of deregulation, beginning with intermediate goods and ending with finished goods in order to give our national industry time for readaptation. The first stage was carried out in 1984, during which 2,844 items in the schedule of the general tax on imports were exempted from the prior permit. In May 1986, the number of exempted items reached 7,306. Later, in June 1987, items subject to prior permit were only 427 of a total of 8,310. This figure represents close to 30 percent of total imports during the first 2 months of this year.

By means of the customs tax statement program, (?tax evasion) was lowered by 0 and 40 percent. [as heard] This can be favorably compared with the tax evasion rate of between 0 and 100 percent [as heard] in 1983. As part of the process for the rationalization of protection, changes in tariffs, which were based on import prices, are now based on the customs assessment method. An

updated [words indistinct] and a speedy administration system have been established to protect the country from unfair trade practices. As it was previously announced, official (?grocery stores) prices, with the exception of 53 items, were signed into law on 20 July. The confirmation of the general agreement on tariffs and trade and four related bylaws continues and ensures the opening process. At the beginning of my administration, we intended to deal with one of the oldest plans of the society, decentralization. It was high time we tried to modify decentralizing trends. The permanence of these trends results in inefficiency and inequality. This hampers Mexico's potential in the various states and, ultimately distorts our democratic life. From the very start, structural changes were one of decentralization's most important instruments for political, economic, and social transformation. Decentralization has enabled us to foster the states' overall development, strengthen municipalities and reorganize national activities.

Based on this, we have worked for the best balance, fostering development throughout the nation and creating a better standard of living for Mexicans. After nearly 5 years of persistent efforts and through the joint participation of society and government, we can now see how far we have progressed. Decentralization is not only a political goal; as a government program, it is a rule that characterizes and defines Mexico's contemporary development. [passage omitted]

Centralization has ceased to be the predominant trend in the nation. The country's capital is no longer the only decisionmaking center. We now notice that economic activity in the medium-sized cities throughout the nation is greater than in the major urban centers. The regional policy today is to support the establishment of a more balanced republic, renewed federalism, and a more equitable relationship among the federation, the states, and the municipalities.

The most important element in the federal government's regional policy is (?intergovernmental) coordination, and, consequently, it is the most important element of decentralization itself. Thanks to this, we have been able to make the regional and state development goals compatible with the national priorities. We have been able to adequately complement the actions of the three levels of government, to use resources more effectively, and to promote a growing participation of social groups in decisions affecting them. We have had to decentralize the decisions and activities (?of federal institutions). The public institutions are now in a better position to give timely and effective responses to the demands of the various communities.

From the beginning, coordination among government branches has been based on a legal and administrative framework that provides support and consistency to the regional and state planning process. In this regard, and as in previous years, the 31 individual agreements were renewed in 1987. The areas covered by the agreements have been substantially enhanced, giving rise to new cooperation programs between the federation and the states. Worthy of note are the programs for population planning; social communications; electoral cooperation; promotion of justice and public security; administrative decentralization; opening of libraries in each municipality; decentralization of health to be able to provide services to the neediest; agricultural, livestock, and fishing trade; fiscal [word indistinct] collection, credit and financing; environment improvement; urban development and housing; communications and transport; support for the maintenance of public works and services; support for the decentralization from states to municipalities; and simplification of state control, evaluation, and administrative systems. These agreements represent the channel for coordination of the national planning system.

On this occasion, through the adoption of these instruments, we have been able to expand the bases for coordination and integration of the federal and state structures because the federal structures [word indistinct] the state structures and their programs of a local scope. This has allowed us to rise above the old centralized framework and thus arrive at a participatory conception of national development. In this manner, the allocation of regional spending has been improved. This is aimed at achieving a growing decentralization of the schedule, implementation, control, and evaluation of investments to the states themselves and from them to their municipalities.

It should be noted that many of our municipalities have already revised and modernized their administrative structures. This has allowed them to improve basic services for the community and efficiently complete projects and works. We must [?watch over] relations between the federation and the states.

As a result of this culmination process, 80 percent of federal public investments have been made in the states and municipalities during the last 5-year period. In addition, the share of federal reveneus represents 80 percent of the current income of state governments.

During the incumbent administration, 56 percent of the total appropriated resources has been devoted to expanding the coverage of social services, 26 percent to basic infrastructure works, and 18 percent to production projects.

An important part of these agreements has been the definition of regional development, labor, and special programs that are carried out by the organizations that prepared them.In 1987, as in previous years, during 1987 these programs were designed with a well-defined social orientation. In every case, the programs promoted the construction of rural grade schools, roads, clinics, low-income housing, hospitals, drinking water systems, sewers, and installation of electricity in small towns. Furthermore, programs have been implemented that will effectively include women, youth, and university graduates in employment policies.

To attain our objective of advancing regional development, we tried to renew economic activity throughout the territory and undertook a holistic development of the states. The federal government, through its dependencies and in coordination with state governments, defined the following geographic regions as having top priority: Cortez sea region, northern border area, southeastern and central areas of the metropolitical region of the federal district, and the temporate zones. In these strategic regions, the combined activities held with the cooperation of the states have allowed us to use their productive potentials in a more effective manner, improve the conditions for development, and link them efficiently to the rest of the country's markets.

In the states within the Cortez sea region, efforts were made this year to strengthen the hydraulic infrastructure and maintain the dynamic character of agricultural, fishery, and tourism activities, because they are very important sources of foreign exchange. We have promoted the liaison system in order to improve the integration of the Baja California peninsula into our continental territory. In past years, the northern border area has not only recuperated but has renewed its traditional confidence and vitality. This area has diversified its economic activitiy with agricultural programs and promoted the assembly industry and other types of industries. In this manner, it has demolished unemployment, and the border strip presently shows clear signs of strong economic growth. The area's development pattern is less vulnerable and has thus strenthened its character as guardian of our national sovereignty. We are proud of the northern border's Mexican identity.

The energetic economic growth in our border strip has highlighted the lack of a sufficient infrastructure for its industrial development, and has pointed out that there is a growing need for urban services. I have, therefore, ordered that a financial, fiscal, and commercial package be prepared; as well as one for services and productive investment. These packages will strenthen the national industry in that area and will compensate for the social impact therein. We firmly support healthy, firm, and sustained development in that promising region.

To initiate industrial decentralization from the metropolitan zone of Mexico City and to establish the development of new regional markets, we have promoted the construction of urban infrastructures in the country's central states and have widened the interregional communication and transportation system.

The development programs in the southeastern region have been a priority in my government, and we have worked with intensity to change their development patterns by applying policies containing more social justice and based on a more efficient use of their productive potential. These policies have allowed for an increase in health, education, supply, and housing services in large rural and urban sectors; for advances to be made in the diversification and incorporation to the agricultural productions of large humid tropic areas; and to improve the regional liaison system.

In order to incorporate the arid zones in national productive development and to make better use of their resources, we have promoted projects that favor using water more efficiently through the construction of hydraulic works and use of agricultural and livestock technoloy. We have also implemented policies that will modernize mining activity in these areas. The government has used all its powers and instruments to promote more balanced and equitable development throughout the national territory and thus to set the foundations for a just and egalitarian society.

Important financial and investment resources have been channeled for this purpose in 1987. Some resources have also been channeled to nonpriority areas. We also continue to promote decentralization of federal public administration, and the government is financially supporting the construction of industrial parks in several states and promoting the creation of mid-sized cities by supplying urban infrastructure and equipment. These measures will contribute to decentralization as productive and service activities accumulate in the public administration sector. It will then become a focal point for development.

The administrative decentralization that was initiated in January 1985 continues with the transfer of operations and service sectors to state governments. We recently achieved the decentralization of basic education and teachers schools to 31 entities throughout the country. We did this with the cooperation of the state governments and the national education union, which are the main characters and supporters of this process.

The decentralization of [words indistinct] also requires open approval, because it is a national statement addressed to structural change. Organic and operational decentralization has taken place in 12 states. With this achievement we have reached 87 percent of the population and are able to ensure efficiency of these services. In the organizations where the transfer of these services not begun, we have started [word indistinct] a functional and administrative deconcentration and promoted a modernization program. Other important facets of decentralization can be seen in federal dependencies, as three bodies are now implementing local highway programs. The federal government has also transferred 36 firms and trusteeships to 23 state governments.

The deconcentration of power and decisionmaking to other federal institutions has been promoted through the creation of a regional decisionmaking center in Monterrey. In Monterrey, 12 state secretariats, the attorney general's office, and 2 parastate agencies participated. Together, these dependencies delegated 245 functions to their representatives in that city, using the national center model that had been established earlier in Guadalajara.

Thirteen federal government enterprises were relocated in various states. In addition, 20 administrative offices of the central public sector have been relocated outside

city limits. Very soon, 11 more parastate enterprises will be transferred. The decentralization of culture brings the benefits of education to the neglected areas of the country, and the identity of our society is strengthened. My government will continue to be attentive to the demands of society in general and to the decentralization of the state governments. I reiterate my calls to all of society to establish together more and more levels of decentralization and to initiate the structural changes demanded by the current circumstances to lay the groundwork for the modernization the country demands.

1986 was the year of our greatest financial problems. From the beginning it was recognized that the planned policy would have difficulties because of the petroleum market's instability. It was estimated that the average international price of crude oil during the year would be $23 a barrel, almost 10 percent lower than the 1985 price. This was a reasonable estimate, according to the data we had at that time, but it was far from reality. The average price of Mexican crude oil in 1986 was less than $12 a barrel. The drop in petroleum income had a definite effect on the economy: It significantly increased the difficulties we had been having with balance of payments and public finances because the exports of petroleum and its derivatives had been approximately one-half of the income in current accounts and more than 20 percent of the total income of the public sector. The decrease in the value 1986 oil sales represented more than 6 percent of the domestic product of that year. In view of this, it was imperative to make a tactical adjustment to the economic policy. Our message to the nation of 21 February 1986 expressed the need to seek some domestic actions to hold down public spending, increase income, [words indistinct] speed the exchange [word indistinct] to promote nonpetroleum exports, and thus defend the country's international reserves.

I emphasized the advisability of expanding the structural change policy, rationalizing the public sector [words indistinct] and protecting the commercial activities of the private sector. I also pointed out that it would be impossible to absorb the loss of petroleum income at the cost of a deep and lasting recession, and, therefore, it was necessary to review the terms of foreign debt loans under the principle of joint responsibility by creditors and debtors.

By midyear we had outlined our economic objectives beyond merely holding down spending. New negotiations were carried out with the international financial community and, as of that time, they were conducted on the basis of those objectives. We obtained terms, rates, and loans in keeping with the announced programs. The measures adopted in 1986 prevented severe damage to the economy. The domestic product decreased 3.8 percent, which is a significant figure, but it shows the effectiveness of the measures taken when compared with the enormous loss in petroleum income. The situation worsened with the deterioration of the prices for the other raw materials, the new availability of external credit by the public sector, and the amortization of private debt.

Inflation rose to 105 percent as a result of the pressure on costs. [Words indistinct] regarding the controlled dollar with which we (?faced) the scarcity of foreign exchange, it reached 148 percent. Interest rates increased 23 points [words indistinct] as a result of a lesser availability of resources. At the same time, the increase in interest rates made the service of the domestic public debt more costly and increased the financial deficit, which helped increase the inflationary pressures that we are still experiencing.

These measures also had positive effects. A greater convertibility in the exchange rate and a greater commercial opening boosted nonpetroleum exports, which reached unprecedented levels, approximately $10 billion.

Financial savings began to recover after September, and at the end of a year with the worst external adversities the country's international reserves showed a large accumulation.

In the first 7 months of this year Mexico's economic outlook was more encouraging; we had already begun a gradual recovery. The production in the manufacturing sector went from an annual (?variation) of minus 5.6 percent in the first 2 months of the year to a positive variation of 4.2 percent (?in June).

According to public opinion polls by the National Institute of Geography, Statistics, and Data Processing, 84 percent of the enterprises predict that their production will increase or remain the same during the July-September quarter in comparison with the previous quarter; 89 percent expect the level of sales to remain the same or increase; and 74 percent expect to maintain or reduce their inventories during that period.

Sales increased 5.4 percent in May and 14.3 percent in June. Inventories have decreased. This points to a greater recovery of production in the future. In June, energy consumption increased 10 percent at an annual rate; long-distance telephone calls 8.8 percent; and the number of permanent affiliates to the Mexican Social Security Institute 3.8 percent.

A gradual recovery is thus observed. This recovery is propelled by four engines: nonpetroleum exports; strengthening of the domestic market, which is a result of the substitution of imports and the relative increase in jobs and contractual salaries; new investment opportunities for private businesses; and a selective reactivation of public investment.

In public finances during the January-June period we had a surplus of 5.7 trillion pesos before the interest payment was made. This quantity represents approximately 8 percent of the GNP for the first half of the year.

We had never created an operational surplus of that magnitude. Expenses in nonfinancial goods and services decreased 6 percent in real terms.

Despite the not-too-favorable behavior of oil revenues, one can see a real and significant growth in the two sectors where we concentrated the tax reform: the provisional income tax payments by the enterprises and the IVA [value added tax] collected by the state's treasuries. This data shows the magnitude of the effort to improve the fiscal sector.

The overall fiscal deficit was 9.8 trillion pesos during the January-June period. This deficit was a result of suspension in the payment of interest on the domestic public debt caused by the current inflation levels.

Financial savings have been increasing in real terms so far this year. An annual rate of more than 12 percent was registered in June. After March, and for the first time in more than 18 months, we observed a positive growth in bank savings.

The important entry of foreign capital partly explains the dynamism of the financial [words indistinct] in the banking sector as well as in the stock market. This increase has not only been sufficient to (?meet) the total requirements of the economy but has permitted the financing of a larger amount of international reserves.

The increase in savings resulted in a moderate decline in interest rates, particularly on credits that banks grant to businesses and individuals.

Interest rates have dropped by more than 7 percent from a high in September 1986. As a result a noticeable recovery of the flow of financing for the productive sector began in April.

Regarding the external sector, nonpetroleum exports have remained very active throughout the first half of the year and grew by 26 percent in comparison with the same period in 1986. This is particularly true of exports of manufactured products, which increased by 46 percent to an average of $800 million per month.

The oil export price increased again. It was $16 per barrel in the first half of the year. Despite a gradual recovery in the imports of the private sector, the trade surplus amounted to $4.760 billion and the current account went up to $3.122 billion in the first half of the year.

Because of these changes, as well as the favorable performance of the capital accounts of the public and private sectors, the monetary reserves of the Bank of Mexico yesterday reached $14.597 billion. This figure surpasses by more than $10 billion the figure in my previous report.

Regardless of the encouraging overall outlook, inflation remains too high. Its nature has been changing as the characteristics of the crisis changed and as we advanced in the implementation of the economic policy.

At the end of 1982, we had an inflation prompted by too much demand. The public deficit required of the issuing of money to finance the deficit, and private spending pressured productive capacity and the balance of payments.

Therefore, it was necessary to adjust the overall demand to the economy. The initial measures applied to achieve this were able to reduce the annual inflation rate from 120 percent in early 1983 to 80 percent at the end of that year and approximately 60 percent in 1984 and 1985.

In early 1986, when the oil price collapse occurred and foreign financing was interrupted, inflation began to rise again due to pressure from the costs that resulted from the type of exchange rate and the interest rates.

We now have no surplus demand or supply problems. Inflation remains high but stable, mainly due to inertial factors. Once it hit the 7.5-percent monthly level it tended to remain at the same level due to the dynamics of the costs and the expectations resulting from past inflation.

Given the current nature of inflation, restricting demand levels, curbing adjustments to price and utility rates, and artificially manipulating downward the variable exchange and interest rates are not advisable solutions to reducing the inflation rate.

We must jointly reduce inflationary pressures. We must maintain a moderate economic recovery and increase the competitiveness of the productive apparatus.

To do this we must continue to lean on fiscal control, realistic prices and rates, and a flexible monetary and exchange policy, with the intensity that the situation requires. This policy must be congruent with the basic balance of the financial markets and a greater commercial opening.

This is the policy we announced in November of last year. We only adjusted its pace and intensity to the circumstances. We will not change the strategy that is being pursued.

The goals we set in growth and inflation are moderate because we know that under the present conditions only gradual changes will be firm and will permit lasting advances.

It would be inadvisable to be impatient and force results, which should maintain a balance and follow a natural time order. To force results would sooner or later cause regression in the productive sector and social frustration.

A responsible government rejects economic management that seeks only apparent achievements and progress during its term in office; the horizon of its work is fixed by the demand to constantly improve the majority's standard of living in the medium and long terms.

The steady and coordinated implementation of the policy under way will allow us to achieve in 1987-1988 two objectives of the encouragement and growth program.

The strategy of renewal and structural changes in the economy is already showing results in the establishment of healthier and more solid bases to promote a balanced and more equitable development.

In recent years the public spending policy has been the object of important changes that have contributed to the process of national renewal. This policy is strictly within the guidelines of the national development plan. In addition, the implementation of this policy is based on the economic reorganization and structural changes.

The control and discipline with which the budget (?is managed) can be appreciated when one looks at the distribution of the programmable expenses of the budget sector. In other words, one should look at the expenses in nonfinancial goods and services incurred by the federal government and the organizations and enterprises under its direct control.

From 1982 to 1986 this government expenditure dropped by 6 percent of the GNP and 22.7 percent in real terms. In the first half of the year we observed an additional 9-percent drop in comparison with the first half of 1986. These figures have few points of comparison with our past or international experience. Despite the scarcity of resources, we have been able to devote attention to taking care of economic priorities and resolving basic needs.

For the reduction of expenditures to be true and consistent with the new development priorities, we have sought to base these expenditures on measures for structural changes.

From 1982 to 1986 the current budget expenditures were reduced by 2.7 percent of the GNP, or 20 percent in real terms. Two measures contributed to this: a limit on the growth in the total number of public employees and better control in transfers and subsidies.

In the federal government the total number of posts has remained constant since 1985, although the number of posts grew in the priority sectors of education, health, the administration of justice, and national security. This was possible with the reduction of the number of employees in other offices.

A similar effort to regulate structures, duties, and operations has been made in the organizations and parastate enterprises. Transfers was the expense with the biggest adjustment — 45 percent in real terms.

All subsidies that did not effectively reach their final destination have been eliminated. We now only maintain those that support peasants' productive activities and the consumption of basic food for less favored groups.

We have renewed the public spending policy. The expenditure of nonfinancial goods and services of the budget sector now represents approximately 22 percent of the GNP. Of this total, 6 percent represents personal services; 9 percent, other operational expenses; 3 percent, transfers; and less than 5 percent, investment.

It is worth noting that the most important item in the operational expenses section of the budget for organizations and enterprises deals with acquisition of the necessary elements for parastate sector sales. Also, we should consider that more than half the resources transferred to direct control agencies benefitted secondary schools and universities, organizations that support agricultural and livestock production, collective transportation systems, and regional development. This means these transfers are clearly socially oriented. After nearly 5 years of budgetary adjustments it is impossible to lower expenditures indiscriminately. Undoubtedly it is necessary to keep increasing production and efficiency in some areas. We will continue to do so. This is essentially a selective activity that is accomplished gradually as part of a strategy of structural change within the framework of strict discipline in implementation of the budget.

The public enterprise sector is very important in our efforts to strengthen the state's leadership role and our joint economic regime, aiding in the achievement of our national objectives. At the beginning of this administration work was initiated to rationalize and strengthen the parastate sector. This is not simply a matter of the privatization of basic public enterprises. As part of the ongoing renovation process, this constitutes a wide effort to restructure the state's economic sector with the objective of revising its operation according to its legal responsibilities and the present need to promote the country's economic and social development.

We have expanded the public sector's scope of action. We are in the process of strengthening this sector's priority and strategic organizations. The privatization of parastate enterprises is limited by the parameters explicitly set forth by the Constitution and by-laws and development priorities. The state will not get rid of those strategic enterprises or social assistance and security organizations dealing with housing, education, supply, health, and social services. An important process to privatize parastate enterprises has been concluded. This has been achieved through four mechanisms: liquidation, merger [fusion], transfer to local governments, and transfer to the social and private sectors. Industrial reinvestment in the public sector is directed at strengthening the state's strategic sector, modernizing the economy, expanding the creation of jobs, and improving the living standard of the majority.

We recognize that there can be competition among the different objectives. However, only with a dynamic, productive, and integrated economy can we achieve development and welfare.

We have defined the sectors to be reorganized, outlined the respective programs, and coordinated actions with the groups that are involved, particularly the workers. Today we are intent on carrying out this reorganization.

As part of the restructuring project, the steel industry sector continued to eliminate enterprises not directly linked to steel production. In this manner, Blast Furnaces of Mexico [Altos Hornos de Mexico], (Sicarsa), and 37 other associated enterprises have been incorporated into Sidermex, which is the control organization. Efforts are under way to increase these enterprises' production capabilities.

Also, the (Sicarsa 2) project was reinstated. It is estimated that by 1988 the smelting, electrical, and pipe casting steel plants will be in operation. This will produce cast iron and by-products.

Within the program to reorganize the sugar industry, we must stress the closure of the Nueva Zelanda and Libertad sugar mills due to the unfeasibility of their operations. We must stress the sale or transfer of these mills and the strengthening of those mills that are producing. As a result, we have reached record production for the 5th consecutive year — 3,750,000 tons. This, in turn, lets us supply our domestic needs and export the surplus of 500,000 tons; in other words, more than $100 million.

On fertilizer, the modernization plans are aimed at resolving structural problems that affect efficiency. Noteworthy are the actions to increase production capacity 18 percent in terms of nutrients and improve the efficiency of nitrogenous and phosphate elements. Also, with the inauguration of the Lazaro Cardenas-Michoacan industrial complex, it will be possible to increase the production capacity of high-concentrate fertilizer to 1.3 million tons and intermediate products to 1.9 million tons.

Thanks to the strategy of industrial reorganization, results are being obtained with increased efficiency and production. In addition, we are servicing the debt and accomplishing the transfer to the industrial parastate sector. The central government's budget transfers have been reduced 57 percent in real terms from 1981 to 1986. As part of this general strategy, we must stress the assumption of assets effected by the federal government through agreements of integral reorganization and financial restructuring with the Federal Commission of Electricity, the National Railroads of Mexico, Sidermex, and Mexican Fishing Products, among the most important organizations. In 1983 the federal government assumed assets of 7.7 million pesos. This was not nontraditional indebtedness, but only reallocations within the budget. The enterprises that have been assisted in this manner have contracted commitments to increase their efficiency and production. The primary objective of the government has been to achieve a healthy rate of development in which internal savings play a leading role and external savings provide indispensable complementary funds.

This is the way measures were implemented to increase the savings of the public, private, and social sectors. It was also the way we made various efforts to reorganize our financial relations with the rest of the world.

The amendments to the income tax law that went into effect on 1 January 1987 seek to counter the negative effects inflation has had on our fiscal regime and on the financing methods of the enterprises.

To encourage productive investment and compel enterprises to maintain the healthiest financial structure, we adjusted the tax paid by corporations by expanding the base of taxable income. We did this by authorizing these corporations to pay taxes only on real interest paid, thus (?reducing) taxes.

To permit the gradual adaptation by the companies of the new fiscal framework, we introduced these amendments for a 4-year transition period. This inevitably results in more complex accounting or administration, but the economic cost of a sudden adjustment would have been greater.

It is encouraging to observe that, responding to the changes that were introduced, many enterprises have already begun an important capitalization process.

Regarding individuals, we are seeking to make the taxes consistent with real income in order to avoid excessive taxation.

Therefore, as in recent years, we reorganized the tax rate structure, which now only contains 16 levels. In addition, we eliminated the 10-percent surcharge that had been established to support (?reconstruction). Effective next year we will reduce the marginal rate.

A basic objective of the current tax package is to support decentralization and help improve the finances of the federal institutions. For this reason, we decided to give them 35 percent of the tax collected. This is more than the amount agreed upon with the federation. These resources will be added to those channeled through the municipal development fund, which will be twice as much as that registered in 1986.

These measures will encourage state participation in federal tax administration and will strengthen the municipal treasuries.

To reinforce the tax changes from the administrative viewpoint, we introduced many changes that simplify our fiscal system. These changes are the result of the opinions collected during consultation conducted in this regard.

We have begun a national crusade against tax evasion. Taxpayers must understand that if we all participate, the individual effort will be less. We have renovated the Mexican tax system.

The policy of prices and rates has a dual purpose [words indistinct] and structural change. The adjustment to public prices maintains or increases the revenues of the parastate sector. This improves its finances and promotes its savings. This is how we are strengthening an

important part of our productive system and freeing resources for the government to contribute to indispensable projects for the people's benefit. In addition, we are increasing efficiency in the distribution of resources in the economy. The result is greater equality because we are decreasing unjustified subsidies.

The national financial system has been essential in the recovery of domestic savings and the flow of capital. The national credit associations, the development banks, and the nonbanking financial intermediaries are working to meet the needs of clients who save and invest.

During the past 12 months interest rates have guaranteed positive yields in real terms. This is the only way savers will find it attractive to maintain their resources in the country's financial institutions. The response has been favorable. By increasing the availability of funds through increased domestic savings and foreign financing the nominal interest rates began to drop.

The national banks are offering an increasingly varied range of savings possibilities. The characteristics of the time deposits and interest they (?yield) are responding to the needs and preference of their clients.

In this way the national banks are diversifying their operations and occupying an important place in financing activities.

The increase in savings permits growing credit volumes for the social and private sectors to direct productive investment in various areas of the economy. In addition, through the selective credit [words indistinct], the national banks are supporting low-income peasants, exporters, agro-industrialists, and builders.

Through financial restructuring [words indistinct] efficient and profitable enterprises are making the terms of their debt compatible with the periods of the maturity of their investments.

We must continue to increase the credit [words indistinct] for the productive sector of our economy to achieve the investment pace we want and need.

This year 12 national credit associations sold, through the stock market, state-sponsored and covertible obligation certificates [certificados de aportacion patrimonial y obligaciones converibles]. This permitted a significant capitalization of the banking system and compliance with the 1983 law on this matter. This law pertains to the small but vigilant presence of private individuals in the credit institutions.

The issue of these certificates was made in recognition of prevailing market conditions.

The success of their sale shows the confidence in national banks.

The development banks are very important instruments in promoting priority activities in the country.

In the past year we gave special attention to agricultural and fishing production, small- and medium-sized industry, housing for the social sector, and nonpetroleum exports.

In 1986 the flow of preferential credit to these activities increased by 7 percent in real terms. We are planning a similar increase for this year.

To increase the number of resources that can be devoted to increasing the allotment for priority sectors, the development bank is determined to rationalize financial subsidies, increase loan recoveries, and extend its financial capacity.

Last June, we established an overall financial and insurance program for the rural areas. The goals of this program are to guarantee an adequate food supply and improve the peasants' standard of living through the increase of resources destined for the agricultural, cattle, and agricultural industry sectors. We will do this by activating insurance guidelines and reducing interest rates on loans for farm supplies.

In the last year, the development of nonbanking financial intermediaries illustrates the progress in the consolidation of the national financial system and the revaluation of Mexican enterprises.

Therefore, stock exchange markets, insurance companies, credit unions, and finance and mortgage companies are now increasing the supply of risk capital, strengthening institutional savings and long-term investments, and promoting capitalization of productive units.

Thus, those companies are complementing and reinforcing the work of the banking system. Their goal is to attain a modern and balanced financial system in which all institutions interact to continue increasing internal savings; efficiently attend investment needs; and, above all, to strengthen the position of the Mexican financial system before foreign institutions.

The public internal debt has reached a very high level. This is because of past high deficits, the small amount of foreign credit used during this administration, and the growth involved in the refinancing of interest rates during inflationary times.

We have tried to reduce that problem by increasing the fiscal surplus before fiscal interest rates, strengthening financial savings, and efficiently using trade. We must not forget that although the public internal debt increased in nominal terms as a result of inflation, it has decreased by 1 percent in real terms during the period covered by our report. Similarly, the public internal debt structure has improved in that we are seeking much less support from the Central Bank on loans.

Mexico's foreign debt continues to weigh heavily on the national economy. That debt was contracted in the past both by the public and private sectors in order to

maintain a high level of investment and expenditures at a time when the perspectives of our foreign surroundings seemed favorable and when there was an available surplus of funds in the world's banking system that needed to be reinvested. A large deterioration of our terms of trade, especially in the case of oil; an increase in interest rates; and the suspension of voluntary loans to developing countries caused the foreign debt crisis in 1982, and we continue to experience that crisis to a large extent.

We have based the handling of the foreign debt on a basic thesis. The excessive debt is caused to a large extent by a number of internal structural problems we are trying to correct. Even if we could imagine the disappearance of the current debt, we should continue implementing the structural change strategy to increase our internal savings and to strengthen the competitiveness of our exports. This would avoid future excessive dependence on foreign resources.

Acknowledging what we just stated, we assert that a lasting resolution of the debt problem must be based on the principle of coresponsibility with creditor banks. That principle involves three conditions: concessions on the part of the foreign banks when unforeseen market changes alter loans' profitability; greater cooperation from the large industrialized countries in promoting the growth of the world economy and trade, because any internal imbalances aggravate the situation of the developing countries; and an adaptation of conditions and available resources of international financial organizations to the new reality.

We need time and more favorable conditions to service the debt. We need complementary resources and a suitable international climate to make the internal changes we are determined to make in an orderly manner.

Because we have clearly defined principles and have the moral authority that the satisfaction of the completed, internal effort provides, we have efficiently defended Mexico's interests through firm negotiations, preventing open confrontations, rhetorical acts of defiance, and demagogic measures that tend to postpone effective advances.

Today, finance and trade are closely linked. We cannot risk the flow of food, supply, and capital good imports our economy and tourism require. The large majority of Mexicans do not want to declare economic war on the world.

Concerning the negotiation of what is considered as the highest foreign debt, we have realistically advanced as far as the complex current circumstances have allowed.

Facts show that we were right. We have restored our prestige abroad, and many countries in debt use our achievements as points of reference in trying to reach the same goals.

This negotiation, which ended in April, was essential. It was held with official and private multilateral creditors and included the debt of the public and private sectors. We refinanced $43.7 billion of the public foreign debt with international commercial banks with a 20-year term and a 7-year grace period. We also achieved the same term for $9.7 billion of the private foreign debt. This is more than half the total debt of that sector. In addition, the U.S. prime rate was eliminated as a reference and was replaced by the London Interbank Offered Rate, which is lower. The surcharge was reduced to thirteen-sixteenths, the lowest obtained to date. This represents an annual savings of $300 million for the country. According to the previous timetable, from 1986 to 1988 the public sector should have covered amortization of $2.5 billion. Those payments were reduced to 258 [as heard]. For the following 5 years, from 1989 to 1993, payments have been reduced from $20.886 billion to $8.160 billion.

Concerning new financing, a credit package of $12 billion was obtained. Half of this amount was provided by the commercial banks and the other half by multilateral and bilateral institutions. This constitutes progress in our objective to resort more to official financial sources. We negotiated contingency mechanisms through which Mexico could receive additional financing in case events outside our control reduced our foreign exchange revenue or endangered economic recovery. The corresponding funds are flowing into the country. To date we have received $2.113 billion from official sources and $13.5 billion from international commerical banks. This has permitted an increase in the availability of resources in the economy, the financing of essential imports, and the strengthening of the country's international monetary reserves.

The foreign debt problem developed over several decades, and it would not be realistic to try to completely resolve it in a couple of years. Nevertheless, we can feel reasonably satisfied with what has been achieved to date. From 31 December 1982 to yesterday, the $15.7-billion net increase of the public foreign debt minus the estimated $7.5-billion decrease in the private foreign debt results in a net increase in our foreign obligations of $8.2 billion in round figures.

In the same period, our international reserves increased $12.785 billion. From this, it is deduced that throughout this administration the country has registered an approximately $4.5-billion net reduction in the debt. We owe less. This contrasts with what occurred in the 1972-1982 decade. During that period we received $66 billion in foreign credits.

Therefore, we find ourselves stronger financially, and we leave solid foundations for the future upon which to continue progress. The process of renegotiating the foreign debt is not over. Through the Cartagena Consensus we discussed strategies with the main Latin American debtor countries. On the basis of what has been achieved so far, we will continue to make efforts to design new

actions that will respond to the needs and take advantage of the opportunities of each moment.

At the beginning of the government, I promoted the reform of constitutional Article 26 to give legal support to an aspiration of society: the establishment of a national system of democratic planning that is capable of guiding public action and promoting the participation of all social groups in the nation's affairs.

Today, democratic planning has rejuvenated work styles. These work styles have taken root in the consciences and daily efforts of Mexicans and constitute a fundamental change in the way of viewing the government's work and the administration of the country's resources. With the 1983-1988 national development plan, Mexican society has an essential guide for its activities. It has known which programs, objectives, and strategies and what people are in charge of promoting development. The achieved progress is annually published in the reports sent to this honorable Congress.

In times of uncertainty such as these, we must not sacrifice the dialogue with society for the sake of achieving technological quality. Planning has not been a very precise outline; instead, it has been a flexible element that has been adapted to the circumstances, which has permitted development and forged the ability to give immediate responses to unforseen situations. Today, democratic planning is being carried out throughout the country, at the federal, state, and municipal levels. It is a national reality. Above all, in a difficult situation, it has been an exercise of reflection and discipline. Through it we have been able to count on the participation of groups and to channel the energy and innovative capacity of society.

Throughout the period this report covers we have updated strategies and goals of the medium-term programs supporting the national development plan. This provides continuity to the sectoral actions in 1987-1988.

In all the federal agencies significant efforts have been made to consolidate the national system of democratic planning. Planning laws were enacted. At present all agencies have this legal instrument or are about to establish one. We are also advancing toward the integration of the municipalities into planning tasks, as 403 planning commissions were set up for municipal development in 20 states, 334 municipal plans were implemented in 16 federal agencies, and development agreements were signed involving 264 municipalities and 8 local governments. Thus, a tenet of the Mexican revolution has been consolidated. The government's and society's efforts have been carried out in a manner that is orderly, farsighted, and close to the fundamental principles of the nation.

The social aspects of development have been given priority in the strategy to handle the economic crisis and national renewal. The employment policy has faced a particularly difficult challenge in recent years. The unfavorable aspects of the economic crisis were compounded by pressures stemming from the massive incorporation of youths into the job market as a result of the demographic explosion of the previous 2 decades. In order to face this situation, the national development plan gave priority to defending the productive sector and jobs. Owing to this strategy the unemployment level was stabilized in 1983, a level that in some cities had exceeded 8 percent of the economically active population. Later we managed to reduce the level of open unemployment.

Following the drop in the international price of oil in 1986 we had to redouble our efforts. Despite the seriousness of the economic crisis, the unemployment rate for the past 16 months has been substantially less than in 1983. This shows the efficacy and the social orientation of the government policies. The creation of jobs — as gauged by the permanent files of the Mexican Social Security Institute [IMSS], excluding the groups that do not guarantee new jobs — in the first months of the year confirms the tendency toward recovery that began at the end of 1986. This has allowed us to note an average yearly growth of approximately 3 percent for the first half of this year. The month of June stands out with 3.8 percent growth as compared to the same month last year. This increase means approximately 247,000 new jobs because this figure does not include voluntary IMSS members.

During this administration the number of IMSS beneficiaries rose by 6.2 million.

The government has been fundamentally concerned about compliance with the guarantees established by the federal pact on labor matters. During the period covered in this report labor conflicts have been settled within the guidelines established by law. To prevent strikes we have tried to settle problems between workers and employers through mediation. In this way we have protected workers and prevented interr ptions at the productive plants. The federal bargaining and mediation board handled approximately 3,000 strike threats from September 1986 to August 1987, of which only 187 led to strikes.

The active participation of the labor congress, and the associations that comprise it, has given the government greater leeway in discharging its responsibility to reinforce workers rights. The [words indistinct] inspection programs have placed special emphasis on overseeing health and security conditions on the job and protecting those rights that current regulations establish for the benefit of workers. In the labor sector, defending true wages is very important. The fight against inflation cannot be forsaken. Likewise, we must not allow the workers' contribution toward resolving the crisis to entail extreme sacrifices for them. On 22 December the Permanent Constitutent Assembly issued a decree amending Section Six of Paragraph A of Article 123 of the Constitution. This has permitted establishing the indispensable mechanisms so that in the appropriate cases minimum wages can be reviewed with the necessary speed.

As a result of this amendment, the minimum wage has been increased three times this year. Together with the wage increase granted in October, this means an accumulated 121-percent increase for the period covered in this report. In this way we want to prevent a deterioration in the purchasing power of low-income workers. Moreover, thanks to collective bargaining, labor unions have gained for their members economic benefits to complement their salaries that have contributed to defending workers true wages.

This year we will channel 60 billion pesos for credit and basic goods and services through the National Fund for Development and Guarantee of Consumption by Workers. We are maintaining the preferential interest rates that largely benefit low-income workers. We will increase the maximum credit amount to 800,000 pesos, which is 2 and 1/2 times higher than the figure for 1986.

Within the framework of the Civil Service Intersecretarial Commission, and considering the existing possibilities, we are continuing to review state employees wages based on the demands made by the FSTSGEM [Federation of Trade Unions of Workers at the Service of the States, Municipalities, and Decentralized Organizations].

Furthermore, despite the difficult circumstances we have experienced, the historic alliance between the organized labor movement and the Mexican state has been strengthened. Both share interests and purposes and face common challenges.

Since our origin as an independent nation, a parallelism has been established between school enrollment and democracy. Therefore, the government has maintained the position of consolidating and perfecting the lay, free, mandatory, nationalist, popular, and democratic nature of education, based on the principles established by Article 3 of the Constitution. At the same time, it has sought to improve the education system at all levels. The social policy of this administration has granted preferential attention to education. The scarcity of resources we have experienced has not affected the structural educational task. On the contrary, it has obliged us to seek new formulas to be more effective in the shaping of our children and, consequently, in the destiny of the nation.

We have achieved important quantitative and qualitative goals. At the beginning of the 1986-1987 term, 25,400,000 students were enrolled. Also, more than 4 million people were educated under nonschooling services. Hence, more than one-third of the population benefits from education services. The average Mexican has more than 6 years of schooling.Education has registered an unprecedented increase up to an average annual rate of 11 percent during this administration. Two out of every three 5-year-old and half of the 4-year-old children receive an education. Total coverage was maintained in the demand for primary education and illiteracy was reduced to only 7.1 percent of the population over 15. Proportionately, this is half of what it was in 1982. In 1986 alone 1 million more Mexicans learned how to read and write. More than 1.2 million adults engaged in primary education, while 800,000 in urban and rural sectors receive informal education at work.

The free textbooks help guarantee equal access to educational opportunities. These are constantly reviewed, in accordance with the progress achieved in scientific and pedagogic education. We will not take a single step backward in this area. We will continue to strive to improve quality.

There are 4.3 million pupils enrolled in the country's secondary schools. Also, 84 out of every 100 who graduate from primary school have been able to continue their studies. Some 1.5 million youths received secondary schooling during the 1986-1987 term, while almost 1.2 million were engaged in higher education, including normal education and postgraduate studies. The government is intent on expanding the training of technicians at the middle education level. With services consolidated within the national education system, enrollment at this level increased 14 per cent in 247 classrooms of the CONALEPT [National School for Professional Technical Education], a figure which is almost double that in 1982. Training was provided to one-third of the students at the middle professional education level. The teacher plays a leading social role. To increase the level of education it is indispensable to improve teacher training. For that purpose, teachers education was raised to the bachelor's degree level. Specialization and refresher courses have been held for the teachers. This year almost 270,000 teachers received this type of training. The education revolution is marching gradually but firmly. Today we have better students because we have better teachers. In recognition of the arduous work carried out by generations of professors, the year 1987 has been designated the year of Mexican teachers and the national teachers college was declared a monument in view of the centennial of its founding

The National Trade Union of Education Workers has participated decisively in renewing the national education system. The state fulfills its duty to offer higher education to the youths. It does so strictly respecting the self-determination of the universities and recognizes them as pillars of development of the critical use of democracy and liberty. My administration gives its total support to the university centers, exhorting them to undergo renewal to achieve the levels of social awareness and academic excellence demanded by society. In the same manner, my administration manifests its confidence that rational life and ideological and scientific universality constitute the adequate path to achieving excellence in higher education.

The National Polytechnic Institute continues to promote the development of the country by training professionals at a high technical level and with technical research programs. During the 1986-1987 term it provided education to 58,800 students at the higher level.

For its part, the national system of investigation currently supports 3,051 national investigators by promoting their activity and linking it to the country's needs. During 1986, through the [word indistinct] and the development agreements, 34,653 educational facilities were built and equipped. These include classrooms, workshops, laboratories, and annexes. Parallel to this a special budget has been earmarked to render preventive and corrective maintenance to the schools. This took care of approximately 10,000 schools. In this country, culture is not reserved for just a few. We promote the cultural integration of broad popular sectors and of our diverse ethnic groups.

We have made efforts to maintain and preserve the values of the national culture in regions with special characteristics, such as the border areas. We have continued the efforts to bring the fine arts not only to the school children but to all social sectors. For the same purpose, the government has constantly made efforts to produce and distribute high-quality, low-cost books.

In order to efficiently guard the nation's cultural heritage, a general security system was installed in the country's museums. New regional museums have been opened in Campeche, Chiapas, Guerrero, Hidalago, Mexico State, and Tabasco and those in Tlaxcala and Michoacan have been renovated. The anthropology museum in Jalapa and the archaeological museum on Cozumel island were also opened.

At the appropriate UNESCO committee we have promoted and achieved the forthcoming declaration of Xochimilco, the historic center of Mexico City, the city of Oaxaca, the archaeological zone of Monte Alban, the city of Puebla, the archaeological zones of Teotihuacan and Palenque, and the Xiatil area in Quintana Roo as belonging to cultural heritage of mankind.

Through the national public libraries program, 590 new libraries were opened with the participation of state and municipal governments in the period covered by this report. Added to those opened over the last 4 years, these make a total of 1,889 libraries, thus permitting 72 percent of the country's municipalities to have a public library. In the period covered by this report more than 34 million readers were served by them.

We are giving special attention to the dialogue with the country's ethnic groups. We have supported their initiatives, recognized their creativity, and satisfied their demands. The consultative council of the National Indian Institute is fully operational. It is comprised exclusively of Indians who participate in drawing up and implementing its programs.

Food constitutes the foundation of improving the population's well-being and living conditions. That is why the government of the Republic has given food the highest priority and has emphasized the attention to the most needy groups and areas. The results achieved have been possible thanks to an effective coordination between the federal and state public agencies and the social and private sectors.

Technical, credit, and training aid has been expressly given to farmers in order to promote production. Through this, we have been able to guarantee the supply of basic food products such as corn, beans, wheat, rice, sugar, cooking oil, eggs, poultry, and milk. What is more important, we have been able to establish a price policy that will improve the standard of living of the producers and will result in a sufficient supply of food, which we have complemented with the necessary imports.

In the food industry, the parastate enterprises have been consolidated as strategic instruments for ensuring the distribution and supply of food. The efforts to modernize CONASUPO [National Company for Basic Commodities] and Azucar S.A. have increased their efficiency in meeting the people's needs and in channeling subsidies to those who need them the most. Special mention must be made of the Social Supply Program which benefits approximately 1.2 million low-income families in urban areas. They are supplied with milk at an average price that is 60 percent lower than in the market.

In order to protect the earning of low-income people, there has been a reinforcement of the supports for their food. Food aid has been directed toward the most vulnerable sectors of the population. In the past 12 months, close to 300 million food rations were distributed throughout the country.

Consumer education, which we have spread through various means, has also been a relevant factor leading to an effective improvement in the family food expenditures with regard to both cost and nutritional value.

We have given special attention to the consolidation of the national health system in order to advance in the fulfillment of the constitutional principle established at the beginning of 1983 in Article 4. To respond to the high population growth, the health services infrastructure has been expanded and a greater number of beneficiaries have been incorporated into the social security institutions. The number of inhabitants without permanent access to the health services has been reduced from 14 million in 1983 to 9.3 million in 1987 despite the increase in the population. This represents an extension of effective coverage to nearly 9.4 million people. The population which has yet to be protected by the permanent health services constitutes an essential objective of preventive medicine campaigns such as the intensive vaccination actions, health education, and control of epidemic diseases. In addition, 9,500 rural communities with populations of 500 to 2,500 residents receive basic attention from health aides.

The programs against alcoholism, drug addiction, and smoking have been gradually extended to the states. Only 1 year after the creation of the National Council against Addictions, 22 state councils have been established. There have also been reforms and [words indistinct] in the area of addictions and the regulations regarding controls over advertisements were published.

In agreement with the Federal Health Council, Acquired Immune Deficiency Syndrome, AIDS, has been added to the list of ailments under epidemiological surveillance and one that requires immediate and compulsory notification. The federal health law has been modified accordingly so the aforementioned agreement can be implemented. Other actions taken to meet this problem are the publication of [word indistinct] to hold compulsory blood tests in the country in order to detect AIDS victims, additions to the health laws eliminating the sale of blood and its byproducts in order to maintain their proper control, and the implementation of a program that requires that blood donated unselfishly by patients' relatives be tested in 31 Health Secretariat hospitals.

Added to the actions taken toward increasing and improving the quality of services given to the general population, the federal government, together with the Inter-American Development Bank, is implementing a program that in its first phase will construct 362 health centers and 10 general hospitals. These units will have a total of 726 beds, will cost $76 million, and will cover an estimated 3.2 million persons in the primary attention level and 2 million in the secondary. They will primarily benefit persons in rural and underprivileged urban areas.

Together with local governments, we are adjusting the national social assistance system so it can provide improved service to the Mexican family — the basic unit of our society, an invaluable tradition of our lifestyle, and bastion of our fatherland. We must point out that the DIF [System for Complete Family Development] has undergone important institutionalizing. Its objectives, policies, resources, and actions are included in a clearly defined institutional outline. It has integrated state systems, created thousands of places [word indistinct] municipal organizations, and has implemented a sole social assistance model. New rehabilitation and special education centers are in operation to service the handicapped in Michoacan, Chihuahua, and the Federal District. During the present administration, the National Social Assistance System has duplicated its services to children, elderly persons, and the handicapped; its beneficiaries have increased from 10.6 million to 25 million.

The Mexican Institute of Social Security has reorganized its services by uniting its 10 national medical centers, decentralizing its rehabilitation services, and implementing new and more efficient techniques for medical attention. Last month, there were 32,284,000 social security beneficiaries, which is an increase of 1,479,000 persons from August 1986. This increase has resulted from the entry of an additional 286,139 persons as permanent beneficiaries during that same period. These new beneficiaries come from different groups that have joined the social security benefits program under different rates, as is in the case of the tobacco producers and taxi drivers. The increase in social security coverage, and the improvement in their services and benefits are solidly supported by the institution's well-balanced financial policies, which have resulted in a decrease in the government's contribution, an increase in [words indistinct], and development of intensive collection programs and motivational patterns.

A federal executive decree will incorporate all public high school students into the Mexican Institute of Social Security benefits program. This measure will benefit more than 400,000 students. ISSSTE [Institute of Social Security and Services for Government Workers] allotted 42 percent of its 1987 budget to health protection, an increase from the 31 percent it allotted for the same purpose in 1984. ISSSTE continues its actions toward administrative modernization, decentralization, intersectorial coordination, and [words indistinct] of the services to increase the amount and quality of its services and benefits. Presently, 35 areas in the country have the human and physical resources to meet the needs of beneficiaries in the same place they originate. Retired personnel have also received the same benefits as the active worker, and they were given services at the level of the general minimum salary.

In the last few decades, the organization process has been one of the peculiarities of the Mexican society's transformation. To achieve our objectives in social welfare, we must end the negative expansion of the three huge metropolitan areas in the nation and attain a more orderly urban development with realistic and coordinated policies. Efforts have been made to coordinate sectorial and regional policies by improving infrastructures and stimulating [word indistinct] the formation on industries, especially export industries; ensuring improved conditions for rural development; decentralizing public administration; and using national criteria to manage economic policies. The mid-sized cities and the urban industrial regions of the northern gulf area and the northwestern section of the country are increasingly becoming better areas in which to center economic activity, and they are growing faster than the Mexico City metropolitan area, which has begun to show signs of decelerating its expansion pace. To lead the growth of the dynamic cities in a more orderly manner, we have created more territorial reserves this year than ever before. In mid-sized cities, we have not only maintained the proper infrastructure and services but have managed to increase its coverage.

Following a clear and collective strategy, we have continued plans for urban development and sanitation in Manzanillo, Mazatlan, La Paz, Puerto Vallarta, Coatzacoalcos, Minatlan, Tampico and Puerto Progreso. On the northern border, we are putting the finishing touches on a very dynamic program. In Tijuana, the new sewage treatment system has the capacity to benefit 1.2 million people. In Ciudad Juarez, the "New Juarez" plan will change this border city. The plan includes the restoration of the customs offices, the construction of a public center and a plaza, the modernization of the market facilities, improvements in the Chamizal recreation complex, as well as significant improvements in drinking water and

drainage systems, and in housing. Because of the citizens' participation and the social cooperation received, this program will become an example of integral urban development.

We are also carrying out projects in small cities. We are implementing an urban development program in the Tehuantepec Isthmus that combines environmental sanitation, construction of houses, and the restoration of the traditional urban skyline.

With the approval by this Honorable Congress, of the bill for reforms of national property, we have better mechanisms to continue protecting the federal real estate. The municipalities will now have more revenues generated by the taxes on property owned by parastate enterprises.

The houses where families have their bases are the fundamental and central points of social integration. Having a decent home is required before people's other basic needs can be met. Housing construction promotes economic activities, creates jobs, settles families, promotes savings, and requires national raw materials. Therefore, in February 1983, we designated home construction as a constitutional social need. We have established incentives for rented homes, supported decentralization, and drafted a policy of land distribution that not only regulates but also creates reserves at suitable places, with a gradual increase in services. Bank reserves have been increased from 3 to 6 percent to generate resources to support housing construction programs. During the 1983-1986 period, 944,000 homes were built or improved. That is 40 percent more than in the preceding six years. The 1987 plan includes 350,000 housing units, 85 percent of them outside of large metropolitan areas. We have given more emphasis to the development of peasant housing through the implementation of credit mechanisms geared to the reality of rural areas. The accomplishments in housing are obvious. Nevertheless, we need to implement new mechanisms to fulfill middle-class needs. We also need to continue promoting private sector investments and the number of homes for rent to facilitate a balance between the tenants and owners, and to strengthen incentives, taking into account their impact on people and economic activity. We should also simplify procedures at the three levels of government, and at the banks as well in order to direct in an orderly manner the expansion of new settlements. We have made commitments with the construction industry, developers, peasant associations, the labor movement, with the national corporation of notaries, and with professional boards and associations in order to reduce time and costs, simplify procedures, introduce appropriate technology, and establish preferential quotas for the organization process, with a straigthforward concept of cooperation and social solidarity.

Society is expressing concern for ecological matters with greater emphasis every day, fully aware that we are facing the challenge of preserving and better using the country's natural resources. This concern is resulting in specific actions. All sectors are acting jointly in the areas where the ecological imbalance is more severe, such as urban air pollution, the sanitation of basins, lakes and bays, the collection and disposal of urban and industrial waste, and the protection of natural resources, particularly of endangered species. We have an ambitious plan that includes 100 actions that are necessary in order to meet the established objectives that should be attained during this administration, with the participation of all sectors of society.

The most important actions are those agreed to by the cement industry to introduce antipollution equipment in all of their plants, the automobile industry to incorporate better technology in new models to prevent pollution, the industries operating in the Santiago River Basin in Jalisco to treat wastes, the Mexican Copper Foundry in Nacozari, Sonora to transform its sulfur dioxide emissions into sulphuric acid, the pork growers in La Piedad to treat the waste from their farms, and the tanneries of Leon, Guanajuato, to treat their chrome residue.

This year we established biosphere reserves in the Manantial Sierra, Jalisco, the National Park of Dzibichaltun, Yucatan, and the Monarch Butterfly Sanctuary. Actions toward the preservation of the sea turtle, the royal eagle, the tucan, the flamingo, the jaguar, the black bear, as well as palm trees and orchids have been reinforced.

We signed an agreement with Guatemala to jointly protect the tropical rainforest. As a clear example of solidarity, the artistic community, scientists, intellectuals, ecologists, industries, businesses, and the media voluntarily support and encourage environmental improvement campaigns. With awareness, technical actions with adequate assistance, and with a more solid institutional base, the more urgent ecological problems will be continuously dealt with.

According to the national development plan and corresponding plans, the sectorial policy has sought to increase demand for different goods and services and through structural changes improve production and distribution.

Farming continues to be essential to national progress since it ensures the supply of food according to population needs. This is why we cannot build a great country if our farmers lifestyles are backward compared to the people of the city. The concept of overall rural development surpasses simple land redistribution to emphasize legal land holdings by organizations, by supporting production, by more efficient sales mechanisms, and by full social support — all this under the concept of full responsibility of the farmers.

This is the policy of modernization and changes the government has encouraged in the Mexican countryside. During the last 5 years, the country's agricultural sector helped dampen the negative effects of the crisis. From 1983 to 1985, production of the 10 main harvests showed an accumulated growth of 8.5 percent resulting

from an increase of acreage as well as improvements in crop yield. In 1986, agricultural production was not good due to unfavorable weather; although there was an increase in cattle raising. The outlook for 1987 seems promising. Production for the main harvests is estimated at 28 million tons. Nearly 20 million tons will be corn, wheat, and rice.

In spite of economic difficulties, basic grain producers have been guaranteed income that has allowed them to recover their costs and begin to recover from poor trade conditions. Coordination among the institutions of this sector has improved, and the producers are strengthening their participation in the decisions that are made. In 1986, technical assistance was given to 1.67 million farmers who tilled 11.7 million hectares. Likewise, to boost industry, more technical assistance and encouragement have been given to producers' activities.

Notwithstanding overall restrictions, agricultural loans have increased in real terms during this administration. The number of beneficiaries rose from 2.2 million in 1983 to 2.8 million in 1986. The number of hectares that were rehabilitated increased by almost 20 percent. During 1986, 85 percent of the tilled land for basic harvests was financed. For 1987, an ambitious loan program has been created amounting to 3.6 million pesos. Important interest rate subsidies have been selectively maintained as well as fertilizer prices and electricity rates.

During 1986, there was an agricultural trade surplus of $1.161 billion, which should be compared to the deficits of previous years. Imports dropped to 5.1 million tons, compared to the 10.5, 8.5, and 7.3 million tons for 1983, 1984, and 1985, respectively. These figures reflect the demand exerted by population growth, and the thriving cattle industry on corn and sorghum supplies. During the first 6 months of this year, the foreign trade surplus has continued, although on a smaller scale than that of the previous year, primarily because of a drop in coffee and chili sauce prices.

To strengthen the production sector, 72,000 hectares were modernized with technology, 811 small and medium land irrigation systems were built, 42,000 hectares were incorporated into the irrigation system, and 31,000 hectares were rehabilitated. Regarding storage and distribution of multiple-use water, the supply capacity was increased. The Cutzamala System and the Yurivia-coatzacoalcos aqueduct are very important and have made a significant contribution. The National Peasant Confederation and the Independent Peasant Central Organization have been continuously making proposals that have decidedly influenced government actions. My administration backs the revolutionary principles and the agrarian conditions of the Mexican State. Large states, land hoarding, and economic and property consolidation go against social justice and efficient production. In the period that this report covers, we published 488 resolutions that gave 957,341 hectares to 42,152 heads of peasant households. During this administration, a total of 162,000 families have been given 4,661,000 hectares. Likewise, during the 1983-1987 period we have made considerable advances in implementing in presidential resolutions, not only by this administration, but by previous administrations. So far we have distributed 7,151,041 hectares. The peasant's agrarian rights are legally upheld by the social property deeds.

This past year, we have distributed 246,593 agrarian titles [certificados de derechos agrarios], which means that in the past 5 years, a total of 1,138,077 agrarian titles were distributed. This is almost the same amount that had been given out up to 1982. We have distributed 52,839 property titles [certificados de inafectabilidad] during the period covered by this report. From 1983 to date, a total of 179,000 titles have been distributed. This gaves security to the small farmers and cattle ranchers.

By the same token, 9,785 titles have been given to tenant farmers, which represents almost half of the amount of titles granted since the Law on Tenant Farming was issued; that is, from the twenties to the end of 1982.

The Rural Land Survey Program has allowed us to give a new impetus to the actions that seek to regulate land tenure. Up to now, we have been able to identify — by means of a photography survey — 91 percent of our national territory. This significant progress allows us to reiterate our commitment to finish this task during the present year and deliver it to the state governments in 1988.

The project to reorganize settlements and prevent additional irregularities is being carried out by establishing reservations. In this period of time I am covering, 4,166 hectares were incorporated into the project, and this gave 108,732 households legal ownership of their property in the cities. We are close to the end of massive land distribution and we are renewing the agrarian reform process and orienting it toward superior forms of organization to achieve an integral use of what has already been distributed and to guide the capacity, imagination, and efforts of the peasants with the decided support of the government.

During the present administration, 12,905 basic agrarian organizations have been formed to act as efficient rural development units.

The size and richness of our coasts and the magnitude of the domestic market and export opportunities make fishing a very promising industry in Mexico. To continue strengthening its development, it is necessary for the public, private, and social sectors to act together. The fishing industry grew at an average rate of 7.9 percent over the past 4 years; in the past year, the fishing industry increased by 11.5 percent, with 1.46 million tons of fish produced and over 278,000 workers employed. Tuna fishing was the most dynamic. In 1963, 45,000 tons of fish were caught, while in 1986 there was a record catch of 102,000 tons. An additional growth of 20 percent is expected this year. With an increase of 8.6

percent in 1986, as compared to the previous year, the foreign currency income for 166,000 tons of fishing exports totaled $500 million, of which 64 percent was in shrimp sales. In the first 6 months of this year, exports totaled $265 million. We are developing fresh and salt water aquaculture, especially shrimp, with the determined cooperation of fishermen and peasants. After prolonged consultation, the new Federal Fishing Law went into effect on 25 January 1987. We have broadened the dialogue with the fishing cooperatives to support their efforts to increase production and efficiency.

Industry is one of the sectors that has suffered most from the effects of the crisis of the last few years, and for this reason a vigorous task of renewal and change has been initiated. 1986 was the year of greatest economic difficulty and it was marked by the magnitude of efforts at industrial adaptation. These efforts have been maintained, and already are yielding encouraging results this year.

Concerning the reorganization of sectors, predominantly private industry, the most significant are the textile industry, agroindustry, and the automobile parts industry; the shoe and electrical appliances industries have asked to be incorporated into productive reorganization programs. The industrial development programs have been strengthened by measures to modernize the automotive, pharmaceutical, petrochemical, and electronic sectors of small, mid-size, and export assembly industries.

The changes made in the external sector allowed us to finance 85 percent of total imports in 1985 with foreign currency obtained from nonpetroleum exports. For the first half of this year, we have managed to finance 100 percent of the imports; and in fact, we received 9 percent more financing than was required. As mentioned above, I have begun planning commercial protection measures in order to increase the efficiency of industry nationwide, and to systematically promote the replacement of import quotas with the expansion of exports.

We have achieved favorable results at a rate higher than had been foreseen. Fifteen of the industrial branches appearing in the trade balance have surpluses. The automotive industry has become the most important exporter in the manufacturing sector, while in 1981 it comprised 60 percent of the total trade deficit of the country.

Of the 29 industrial sectors appearing in the trade balance, 15 reflect a surplus. The automotive industry has become the most important exporter in the manufacturing sector; in 1981 it had accounted for 60 percent of the country's overall trade deficit.

The deficit balance in the chemical-pharmaceutical industry has dropped by half, and in the electronics sector the ratio of imports to exports has dropped from 20 to 1 in 1982 to 4 to 1 at the present time. In October 1986, the executive branch I head adopted a number of measures aimed at bolstering the petrochemical industry. A total of 36 basic products were reclassified as secondary products. The public sector focused on the matters that are its exclusive responsibility, and the participation of the social and private sectors in the rest was consolidated. This will result in an increase in production, in new technological networks, and in making use of the advantages afforded by the international market. As a result of this, the Petrochemical Commission has granted 46 permits for the promotion of this sector during the first half of 1987 alone, which is more than those granted during the 2 previous years. Steps are being taken to grant an additional 17 permits for investments that are estimated to reach $600 million by the end of the year.

To support the policy of developing non-oil exports, we expanded the foreign trade bank's credit and guarantees program to 6.7 trillion pesos for this year. During the first 4 months, 2.3 trillion pesos has been used to support exporters. We have been selectively promoting foreign investment, and we have contributed almost 50 percent of the investments authorized for the year, which amount to more than 2.4 billion, even though we began only around mid-1986. We have done this to pay off the liabilities of enterprises that have a foreign debt and to replace public debt with investment. Finally, I should mention that the national status of oil has begun to yield positive results: We have secured a ruling on U.S. oil imports that is favorable to Mexico.

Mexican development cannot be explained without mentioning the nationalization of hydrocarbons, because this has contributed greatly toward increasing the social and economic strength of the country, and thus its political independence. Pemex is a vitally important strategic enterprise. In 1987, over 14 trillion pesos will enter the country as direct and indirect taxes, and the nation will be paid $8.2 billion for overseas hydrocarbons sales. This significant contribution has allowed us to establish and maintain basic social services and make extremely important investments. This amply justifies the practice of channeling to the nation a good part of the domestic prices of hydrocarbons through taxes.

Pemex generates a significant proportion of the demand for capital goods and indirectly for labor, and it has significant effects on the country's rational development. For this reason, the government firmly intends to support the strengthening of Pemex. During the past year, Pemex has satisfied domestic energy needs and maintained the export level. The necessary steps have been taken to ensure the maintenance and security of the industrial installations and to increase the utilization of the installed capacity. There is harmony among the administration, workers, and oil technicians; and the lives and security of the workers, their families, and the community are helped. Support is given to exploration and certification of oil fields and the development and operation of the exploitation systems with a long-term view, which is indispensable in the petroleum industry.

Technological reforms have been effected, and the systems of transportation and storage have been modernized. The conservation of energy and the protection of the environment are encouraged. Thus, we are preparing to answer the future demands of national development.

Oil perspectives are not canceled. In the next decade international markets will tend to be more stable, with improved prices. The possibilities are open to take advantage of economies of scale, to resort to imaginative formulas of investment and conversion, and to market products abroad that will have increasing aggregate value. Basic and secondary petrochemistry are branches of advances technology in which both public and private sectors can integrate productive chains within the terms fixed by law, which will contribute to giving impetus to the country's industrialization and foreign trade.

In contrast to the instability of the oil market during 1986, there has been a reasonable growth of oil price levels during the period on which I am reporting. That was possible thanks to consultations among most oil producers, both members and nonmembers of OPEC. In that context, we have developed an active policy based on dialogue among producers and consumers. As a deliberate strategy, we changed our export level. We are moderately optimistic about market stability in the coming months. Mexico will continue insisting on the need to maintain discipline in hydrocarbon production and exports to consolidate market stability and adequate prices.

At present, we export oil technology to Ecuador, Peru, and other countries. Last May we signed a contract for the construction of the Neuquen-Buenos Aires gas pipeline. The project is an important example of cooperation between public and private enterprises. That project represents approximately $175 million in foreign exchange income.

The electric subsector has grown considerably in the last 5 years. Its energy production capacity increased to an annual average rate of 5.5 percent and reached a total of 24,058 megawatts this year. The electric subsector continues responding to our need for support for the country's development.

The increase in electricity demand forces us to diversify the use of energy sources. Of the 2,080 megawatts that will be incorporated into the national energy system this year, 78.4 percent will come from sources other than hydrocarbons.

Energy production from nonoil sources will increase from 38.3 percent in 1982 to 42.4 percent in 1988, thanks mainly to the operation of four new hydroelectric plants geothermal plants, and coal-powered electric projects will soon be added.

Nuclear energy is a possibility in diversifying our primary energy sources and an inescapable opportunity to incorporate Mexico into the modern technological revolution. That is the reason why the federal government is building the Laguna Verde plant. We admit that the construction of the Laguna Verde Nuclear Power Plant has elicited an understandable concern from the people regarding the safety in the operation of nuclear power plants, particularly those living near the plant. We assure you that we have taken the measures dictated by the most advanced technology to guarantee this plant's safe operation. The facilities and safety and environmental protection systems have been thoroughly examined. We have concluded the underground tests required before the plant can begin operating. Prior to loading the reactor, the agency in charge has requested the assistance of an International Atomic Energy Agency scientific mission to confirm the plant's reliability. The public will be kept informed continuously about the results of these studies through the media.

Mining activities have an important place in our country. They help create jobs, promote development in underprivileged areas, unify productive sectors, help to obtain foreign exchange, and provide basic supplies to national industry and agricultural activities. Despite the especially adverse conditions, for the last 4 years mining activities have been one of the most prosperous activities.

While domestic silver producting increased 50.8 percent between 1982 and 1986, world silver production grew only 9 percent during that same period. Our gold production increased 25.2 percent between 1982-1986, but world gold production increased 17 percent during that same period. Other minerals that demonstrated the same growth pattern were lead, zinc, and tungsten.

The mining sector has steadied its export program and maintained a positive trade balance with foreign countries. Its exports amounted to $510 million in 1986. The sector's nonoil exports increased more than 7 percent and reached a positive balance of $341 million. The ore-processing capacity increased by 39 percent between 1983 and 1986. It increased from 279,000 tons to 389,000 tons daily. To date, and with the import substitution programs, this sector has now incorporated into the national program 70 percent of the ore-processing equipment and 40 percent of prospecting equipment. In this way the sector contributes to the production network, which is the core of industrial reorganization. According to law, mining for ore is done according to the sector's diversification and growth needs.

A total of 1.2 million hectares of land ready for immediate exploitation will be incorporated into the program. The relationship between the reserves and production of products such as silver, lead, zinc, and copper is adequate. Mexican mining can view the future with renewed optimism.

The communications and transportation sector is essential to our nation's daily activities, for the economy, for the movement of people and merchandise, for services, and for the transmission of ideas. Therefore, we will continue our efforts to maintain and broaden this infrastructure and improve its operation. We are in the

process of a broad renewal of the country's communications and transportation systems.

With the creation at the end of last year of the decentralized telegraph and postal bodies, the legal bases of their operation were consolidated, their administrative structure was adapted, and their operations were updated. The telegraph network was increased by 21 percent during this report's period. We expanded and modernized the microwave network, and today we have 7,740 telephone channels. Also worthy of mention is the consolidation of the Morelos satellite system with the installation of an increased number of ground stations. Also, 273 towns were added to the rural telephone system, thus benefitting more than 150,000 inhabitants.

Mexican Telephones Inc. [Telefonos de Mexico] has increased operations by an average of 6 percent annually since the end of 1982, and during the final months of this year will install the 8 millionth telephone. I must point out that despite the damages suffered during the earthquakes in 1985, which cut Mexico City off from the world, 100 percent of the telephone service has been restored in the record time of 8 months. In addition, the metropolitan long distance network was decentralized with the installation of communications equipment with the capacity to handle 20 million calls monthly. That increases our capacity by 70 percent compared with the setup we had prior to the earthquakes.

Finally, in 1986 the first fiber optic circuit began operating with a length of 348 km. With that our country began using world-class technology. All of these technological improvements require time to operate at full capacity. I acknowledge that there have been failures in providing services, but we will overcome these failures within a few more months.

Last April the Communications Institute and the Transportation Institute were created to conduct research in the field of applied technology. This will reduce dependence on other countries.

During this administration more than 15,000 km of highways and roads have been built, and four-lane highways have more than doubled. Most worthy of note are the modernization and widening of the Mexico-Toluca, Guadalajara-Manzanillo, Puebla-Orizaba, Queretaro-Irapuato, Queretaro-San Luis Potosi, Guaymas-Hermosillo-Nogales, and Monterrey-Linares highways, in addition to the construction of the Teotitlan-Tuxtepec and the Chihuahua-Hermosillo highways.

Despite the scarcity of resources, we have given priority to the maintenance of the existing highway network. That is why I alloted 132 billion pesos for this purpose in 1987 and transferred the maintenance of feeder and rural roads to the state governments. Finally, among the great achievements of the process are the construction of the Tampico, Reynosa II International, and Ciudad Acuna bridges.

During the period covered by this report, 4 new central bus terminals began operating and 15 more are under construction, including one in Guadalajara at a cost of approximately 12 million pesos, and one in Puebla which is almost finished. Since 1982 public passenger service in the Federal District has registred annual growth of 5 percent.

Railway modernization is the centerpiece of the strategy of making structural changes in the transportation system. Because of its importance, this service was established in Article 28 of the Constitution as a strategic area reserved to the state. In 1984 the new organic law on Mexico's National Railway was issued, and since 1986 the company has controlled all of the country's railway services. The collective contract, which up until 1982 had undergone very few changes, is being modernized and adapted to the current operation systems, and a pay scale is being established that will promote productivity and training for the better development of railway employees.

Large railway structures are being built, among which the most important are the electrification of the two-track Mexico-Queretaro line, the modernization of the Mexican Railway between Mexico City and Veracruz, and the new direct Guadalajara-Monterrey line. In addition to this, a special program has been implemented to repair locomotives, which will soon restore 275 units to operation.

Passenger service, which establishes to a great extent the railway's public image, is being restructured and will center around the routes of intense traffic. This is a new concept that will considerably improve the quality of service. Progress can be seen in the Constitucionalista, Regiomantano, Tapatio, and Perepecha trains.

Important financial measures have also been adopted. Fares have been restructured to allow coverage of all freight services. The federal government has assumed responsibility for $1 billion of the organization's accrued debt. The enterprise pledged to increase its productivity and efficiency.

The impetus of the national merchant navy is worthwhile mentioning regarding sea transportation. This activity grew from 2 million deadweight tons in 1982 to nearly 3.5 million tons. Plans have been made for our foreign trade to share in the deep-sea shipments at a level of 45 percent in 1988, excluding oil and by-products. Twelve deep-draft ports have been expanded, the most important of which are Mazatlan, Tampico, Manzanillo, Guaymas, and Ensenada. The construction of new deep-draft ports in Yucatan is in progress.

Regarding industrial ports, progress is being made in the auxiliary projects of those of Lazaro Cardenas in Michoacan and Altamira in Tamaulipas.

The trunk airlines system is being reorganized to make it more competitive in international trade and to regulate the domestic service fleet. During the period covered by this report, the airports at Puebla, Puerto Escondido,

Tlaxcala, and Queretaro were built. We continued the projects in various terminals, such as Colima, Bajio, and Bahia de Xacalco. Through these projects the national network now includes 57 airports, of which 12 will have been built during this administration. We continue to reorganize the local commercial airlines. Their service at present leaves much to be desired; their efficiency is low and they continue to require a sizable government subsidy.

In the fulfillment of our government platform, we have taken important actions to encourage production and distribution to meet the population's needs for staples. Regarding the national supply system, we only have to improve the relationship between production areas and consumption centers, improve the efficiency of people's consumption, and establish a better balance between urban and rural supply. The construction of large storage centers, such as that in Puebla, has made it possible to lower shortages, produce surpluses, standardize prices, and improve the operation of markets. The granting of subsidies continues to be revised to prevent the diversion of subsidies and to make sure that available public resources are expended with social criteria clearly in mind. In this regard the following subsidies were eliminated: those for raw materials, particularly for the edible oil and baking industries; and those for rice and beans. Subsidies were then used to support the consumption of the lower-income groups.

Programs were established for the protection of workers salaries, the economy of peasant families, and supply of basic medicines. In the 1983-1986 period, CONASUPO [National Company for Basic Commodities] increased cornmeal production by 12 percent, oils and greases by 23 percent, and milk production by nearly 100 percent. Coupons continued to be used to buy tortillas and rehydrated milk. Also, basic products continued to be sold through 18,000 CONASUPO distribution centers throughout the country. This organization has been reorganized to efficiently cope with the Mexican economy's situation. Actions were taken to improve the structure of the organization's operation and finances. Programs were improved and priority status was assigned to the organization's market regulating role beyond that of mass supplier of necessary production needs. As a result, supply procedures have been expedited and unnecessary pressures have been eliminated from the enterprise's budget, while maintaining and even expanding its social role.

Unprecedented results were obtained 18 months after the program to promote tourism was initiated. The number of tourists, which decreased during the first half of the year because of the earthquakes, rose again to normal in 1986. We welcomed 4.6 million tourists. This figure represented a 10-percent increase over 1985. So far this year 3.6 million tourists have visited our country, which resulted in $1.6 billion of revenue. We anticipate receiving 5 million foreign visitors for the first time this year. Clearances for charter flights have been expedited. As a result, the number of foreign passengers carried by these flights can increase by 25 percent. The number can be increased by 40 percent from January to August this year. Local airlines opened new routes. Thus, the number of international passengers flown has increased by 20 percent. Regarding surface transportation, important steps were taken to resolve the problem of foreign chartered buses entering the country. The Secretariat of Communications and Transport approved an agreement between Mexico and U.S. bus enterprises.

This resolves the complaints that the tourist industry has been making for 5 decades. The construction of 9,000 hotel rooms, which began this year, represents a 70-percent increase over 1986. This shows the investors' growing confidence in this sector. FONATUR [National Tourism Promotion Fund] financed 4,000 of those rooms and the refurbishing of another 2,500. Progress is under way in the urban and tourism infrastructure of the first stage of the Bahias de Huatulco project. Its international airport and 600 hotel rooms will be operational in December. This figure will rise to 1,300 rooms by the next dry season. The construction of these rooms will result in the permanent employment of 13,000 people. This project marks the establishment of a new center of national development in Oaxaca, which urgently needs more jobs.

Our campaign to promote tourism has intensified and is directed against the ever increasing competition from other countries.

Mexico undoubtedly is a country with great tourist attractions. There is also great potential to develop new recreational facilities for our citizens, which will also promote tourism from abroad. The drop in tourism in 1986 and during the first months of 1987 is not the result of a lack of efforts by the public, private, and social sectors. Tourism is acquiring a new dimension in the national economy.

Scientific and technological development contributes fundamentally to the country's creative capabilities and to the process of renewal and change. In recent years there has been a growing awareness of the vital importance of technology and science. For this reason the federal government, through the National Council of Science and Technology, is supporting efforts to meet the objectives of the national development plan.

During this administration, the post-graduate system has become better balanced, both academically and geographically. The CONACYT [National Council for Science and Technology] has improved the scholarship system and has granted more than 9,000 scholarships, which has changed the proportion of scholarship students in Mexico and abroad.

More than 3,000 researchers have joined the recently created national scholarship system. From 1983 to 1986 we supported 937 research projects and 601 development programs. The selection of these projects and programs was determined by priorities set by the scientific and technological community.

We have tried to tighten the links between technological research and production. Priority attention has been given to activities in the framework of the shared-risk program by sponsoring 165 new projects in the past 4 years.

This has allowed important advances in energy and communications and in agriculture and livestock, it has promoted ecological protection and health, and it has supported the national production of capital goods in industries such as fishing and in the agroindustrial and construction sectors.

The information and consultation system was opened to the public. A list of the country's technological experts was prepared for the first time. Producers find this very useful. Important cooperative arrangements with more than 40 countries were strengthened and a great effort was made to provide information through the media.

Priority attention has been focused on the efforts to provide basic services to the Federal District population.

Our main commitment is to promote the social coexistence of the people of the capital, overcoming backwardness, inequality, and distortions caused by rapid urban growth. To meet one of the main demands of the people of the capital we offered to create a collective urban transport system that would give preference to mass transportation.

With the opening of the first phase of Metro line 9 — Pantitlan-Centro Medico — and the light-rail train that runs between Tasquena and Huipulco, the collective system now has 137 km in operation

The construction of the Metro's line 7 is advancing. It runs between Tacuba and El Rosario. The extension of light-rail services to Xochimilco is also advancing. We have also initiated the project for the light-rail metro that will run on Ignacio Zaragozo Avenue.

At the conclusion of these projects, the people of the capital will have a combined transport system twice as big as the one we had at the beginning of this administration.

To date the Ruta 100 line has doubled its vehicular equipment, reaching a total of 15,000 units, and has increased its routes from 114 to 226. The electrical transportation system has increased its bus services route by 140 km. In 1982 this system served totaling 294 km.

In the construction of public works and in providing urban services, the government favors improving existing structures rather than building expansions that would not be in line with the efficient use of basic services.

To improve transport in Mexico City we are constructing Southern Axis Road 10 and the peripheral road south to link it with the Mexico-Puebla highway.

We extended La Reforma Avenue at the La Venta-Iberoamericana University area, which will relieve traffic congestion to and from Toluca. We initiated the construction of Picacho-Periferico turn-off bridge. We concluded the vehicle bridges from Circuito Interior to Avenida Universidad to Coyoacan and the one between the Churubusco River and Anil and Ticoman, which is part of the La Salle-La Escalera public road project.

The potable water network was strengthened with the construction of the interconnection system between Villa Verdun, El Cartero, and Santa Lucia. Secondary pipelines were extended 33 km, thus supplying potable water service to 97 percent of the people who have waterlines to their homes.

The Iztapalapa drainage system was completed. It was extended 5.12 km and benefits 600,000 inhabitants. Work continued in the dredging of the Hondo and Churubusco Rivers; in the San Lucas and Anzaldo Dams; and in the eastern sector of the Federal District.

In support of urban reorganization, new regulations were enacted for construction in the Federal District. New guidelines for the structural security of buildings and for the city's development were established. After consulting the public, it was decided to continue urban development programs for the Federal District and its subdistricts that began in 1982. This is a notable advancement toward the integration of a more secure, humane, and harmonious society.

An agreement was signed with 34 civil environmental organizations to allow the organized participation of the people in specific programs to make headway in the fight against pollution. The Alameda Sur garden of solidarity and the Jesus Reyes Heroles, Juan Rulfo, and Ignacio Chavez gardens were inaugurated in the areas where rehabilitation was made infeasible by the 1985 earthquakes.

In the next few weeks we will dedicate the Alameda Norte and Santa Cruz Meyehualco Avenue. This means that within 1 year we will have placed in service more than 100 hectares of green areas.

To fight contamination, the Bordo Poniente Uno sanitary landfill is under construction, which is the one connected to the Bordo Poniente Dos, both located in the former Texcoco Lake. The Prados de la Montana Landfill is also being worked on to replace the Santa Fe Landfill, which has been closed. Work has begun to turn them into one of the largest parks of the city.

Because of these projects, we can tell you with satisfaction that 66 percent of the solid waste that is picked up in Mexico City is now being placed in sanitary dumps, thus avoiding the contamination of the environment that is caused by open garbage dumps — which was the system for handling all garbage at the beginning of this administration.

The hospital sector was improved by expanding and renovating the La Villa, Balbuena, Moctezuma Childrens, and Topilejo Maternal-Childrens Hospitals, and

the Emergency Hospital in Xoco. Work continues on what will be the Federal District's central hospital.

To expand basic education in the city, 73 new schools were opened in various areas, and 40 more schools are about to be completed. We have worked on the construction of sports centers in Iztapalapa, Gustavo A. Madero, and Alvaro Obregon. Fifteen other sports centers have been built, and 700 sports centers already have adequate facilites.

Through the supplies and marketing program, we have expanded organizations to guarantee the supply of staples to the lowest income population groups. We have done this by opening 41 new public marketplaces; if added to the 53 that already had been renovated, this means 30 percent of all city marketplaces have been renovated.

To improve public security, we have restructured Mexico City's police, and 3,700 new recruits who have just graduated from the Police Academy have joined the force, thus creating 123 new security squads. Police equipment has been improved with the acquisition of 165 patrol cars and 46 trucks and vans. In the southern and eastern sectors we have installed new security posts.

Fellow countrymen from all parts of the country live in the capital, and like everybody else they need services and have to satisfy their needs. We are not going to permit a deterioration of the Federal District. It is and will continue to be the city of all Mexicans.

Honorable Congress of the Union, we are in a process of change. Our time is no longer one of emergencies; it is a time for renewal. Structural changes and the strengthening of institutions will continue to be a source of support. We are going to continue, supported by the unity and concord we have secured and by the strength of a political and institutional system that has demonstrated its efficiency in difficult times. Today's renewal is no longer a government policy but a result of our people's awareness and attitude. It is an institutional task and a social demand. Nations that do not change decline; those that change without guidelines break up. Mexico is changing while it reaffirms and renews the revolution. It has awareness and unity to face a more complex and dynamic era. We are confirming all the good the country has done through its institutions, and we are renewing what must be renewed to adapt to new circumstances and to lay the foundations for a better future. The revolution has vital solutions for Mexico's development. We have history, tradition, principles, and institutions.

We have never let ourselves be overcome by adversity. Fighting and perseverance are our characteristics. The people have indomitable energy. This assures us we will resolve any remaining problems. In difficult times peace and social stability have definite meanings. They reflect the adherence of the majority to constitutional order; they are the necessary ingredients that every country needs to resolve its problems and carry out a healthy campaign to implement change.

The crisis is temporary. Mexico is pulling forward. Let us not return to myths that we have overcome. Let us not look for solutions in the past. Nostalgia for other times will neither remedy our present problems nor sustain us in the future.

National renewal has influenced all aspects of our lives. It has changed our politics and has modernized our economy. Our society is different, and this change has not come about as a result of time; it is due to a conscious effort on the part of the people and government. The national renewal has legal and institutional bases. The great proposals and fundamental decisions have been made. Our achievements will give us the support needed to follow the road that still lies ahead. During the rest of my term we will only propose initiatives that will allow us to complement and strengthen all that has been started. Ahead of us lies an important consolidation task.

Integral democracy is not a mere statement. It embodies the style and feeling that guides the perfection of our institutions. The Mexican political system is in force. We perfect and adjust it to the needs of the new pluralism of society. We want more democracy, a democracy that will reinforce our peaceful coexistence, that will permit more and better opportunities for social participation and representation, and that will be based on the people's aspirations and the recognition of the nation's political and economic needs. Democracy is defined by our Constitution as a system of life based on the constant economic, social, and cultural improvement of the people and that will contribute to a better coexistence, with appreciation for a person's dignity and the family's integrity, and following the ideals of fraternity and equal rights for all men. I quote Article 3 of the Constitution. We understand that democracy is dynamic and that it is nourished by plurality, differences, and criticism. That is why, by reconciling interests, resolving conflicts, and negotiation and agreement, we seek political actions that will give new form to the government's relationship with society.

Social justice is the other great principle that guides us. It expresses our historic desire to achieve equality among all Mexicans. That is why, and given the many imbalances and inequities that still exist in our society, we need to continue the structural changes that will permit us to support ourselves with an efficient productive apparatus that will distribute income and wealth with greater fairness.

There have been substantial advances in the tasks we set out to do. We have renewed policies regarding the electoral process, the relationship between society and the state, the balance between branches and between the three levels of government, and the improvement of the judicial system, as well as in social communication and political participation. We have improved our foreign policy with new approaches and mechanisms that have allowed us to strengthen our principles and take an active role in international affairs by pragmatically boosting the struggle in favor of peace and development

and by turning toward Latin America without losing our useful and appropriate relations with our northern neighbors. We also have improved our foreign policy by resuming relations with other nations.

Mexico's voice is respected in all international tribunals. We have given evidence — in principle — that our country obtains more benefits from firm negotiations than from useless confrontations. We have renewed our economic policy. We have confronted our difficult internal and external situation by making structural changes that strengthen basic government sectors. In this way we also have prevented government sectors from being burdened by problems that will prevent it from fulfilling its constitutional obligations. We have increased the efficiency of public organizations and private enterprise by opening up trade possibilities and reorganizing our industry.

We have reorganized our public finances and recovered the nation's external credit. We have renewed our social policy by doing more with less resources, by revolutionizing the educational system, by systematizing and increasing health programs, by promoting the production and distribution of food, and by giving priority to housing and environmental protection. We have renewed regional development by promoting the decentralization of national life. We believe in the federal concept, and, based on this, we have prompted the vitality of the states for the benefit of Mexico by strengthening the productive capabilities of the regions and by seeking a balance in national development. In this way we have managed to direct the attitudes of people from a variety of places toward one great national task. Decentralization means to spread development and democracy and to promote efficient action.

In this respect we admit that our states and regions are interdependent, but different. We are one nation. I am aware that there are still some structural problems. We have corrected many imbalances. However, in spite of the efforts made, serious problems remain — such as inflation — that affect those who have less and increase the backwardness and setbacks of groups and regions that the country has been unable to incorporate into the benefits of development.

Inflation continues to prevail, but there is a gradual recovery. But stopping inflation at the expense of growth would lead to new and worse forms of imbalance. Growth at any cost would expose us to a hyperinflationary situation and would nullify the efforts and dedication the Mexican people have developed in these years of crisis. We cannot risk what we have achieved. Recovery, the creation of jobs, and the struggle against inflation are processes that progress at a rate that depends on the true possibilities of the country. As all factors that deeply affect the social and economic structure of the nation, these demand time, firm and disciplined efforts, and careful handling.

Let us not lose perspective. Let us consider our achievements since the dramatic crisis we had to confront at the beginning of this administration. Our determination, perseverance, and strength do justice to the fatherland and stimulate faith in ourselves. We have reasons for reaffirming our confidence in our nation's secure destiny and in the bases for increasing our national pride in being Mexicans.

Our country has more assets than liabilities, more future than past. While renewing ourselves we are building a better Mexico. The process does not expend itself in one administration; this is a mere chapter in our history. We have begun a deep transformation. We have advanced along the path, but there is much more to be done. The nation, the great Mexican people will have to establish the programs and tactics that time and circumstances greatly demand to ensure the continuous modernization of the principles and values of the Mexican revolution.

The country is strengthened by renewal. The outlook for Mexico is positive. The tremendous efforts proudly made by the great Mexican people are allowing us to make progress. We are doing this with firmer productive bases, with social peace and institutional strength.

There will always have to be efforts. Greatness is not attained easily. During the next year we will continue to work; we will continue the patriotic and hard work demanded by national renewal. We will preserve all that must be preserved, but, above all, we will consolidate the two fundamental purposes in which we have invested labor and sacrifices: Mexico's structural change and institutional transformation.

Seven postulates of the Mexican revolution have guided the government's actions from the beginning. They formed the basis for the establishment of priorities, objectives, and strategies.

National renewal is an effort to strengthen revolutionary nationalism, deepen democratization, progress toward a more egalitarian society, promote a morality based upon work and dedication to the nation, decentralize national life, achieve development, increase employment, and combat inflation. All of this will be done with the support of the national system of democratic planning.

With this theory, which is based on the Constitution, I offered to make the changes that would change the nation and create a new and improved phase in our history. We are doing this alone, with a government that knows what it wants and where it is heading. Therefore, we will continue to work with conviction and in harmony.

Mexicans, the national renewal we are carrying out has made me change my actions and behavior in exercising authority and political action. I conceive the exercise of presidential authority as an element of unity and as the privileged task of serving my fatherland. I have undertaken a clear, firm task of leadership; a task of efficient institutional coordination and of authority that is subject to the law and respects my fellow citizens. The supreme obligation of the presidency is national sovereignty, and its limits are individual guarantees, social rights, the division of power, and the federal system.

Freedom of expression, the press, and thought; the validity of a multiparty system; the strength of social organizations; and an increasingly alert and participative society also limit and balance the exercise of that authority. The constitutional control of presidential actions by the federal judicial branch through writs of amparo are an important part of the system that subjects authority to legality.

Public authority means responsibility and subordination to the law. It means respect for peoples' dignity. It should not be exercised with personal styles that are the result of whims and arbitrariness. We have an institutional system in which hand-picked leaders and political strongmen have been eliminated. The legitimacy of the public authority is based on the defense of our sovereignty, subordination to the law, social consensus, and respect for the freedom and rights of groups and individuals. Laws and institutions prevail over men.

Attitudes and behavior occupy a very important place in the national changes we have carried out, because the law is not good enough if it does not help determine people's daily conduct. Our nation's evolution is determined by the actions of all society and by each and every one of our actions.

Authority is exercised to give a direction to the Mexican people's aspirations and to settle conflicts through negotiation and dialogue. The executive branch I head has been in touch with each and every one of Mexico's social, labor, peasant, business, urban, middle-class, professional, intellectual, artist, service-oriented, youth, and women's groups. We have been in touch with all those organizations, which are part of the nation's community life. Together we have forged a new solidarity among Mexicans that ennobles even further the effort society has made throughout these years.

According to the timetable established by the Constitution, the country is approaching a basic change for all Mexicans. Next year we will have federal elections. Elections will take place in a stronger country that has worked to change its political life and improve its economy. They will take place in a nation that has preserved peace, freedom, harmony, and stability through renewal.

The elections will be held within a new juridical framework. The executive branch under my command assumes the commitment to abide by the law and guarantee there will be honesty and respect for public order in the elections. Elections are made to consolidate and perfect democracy. They are made to keep the nation united and strong. It is the citizens' and the political parties' responsibility to make the electoral process a democratic event that will strengthen us. It should not become a pretext for useless struggles, the expression of private interests, or an effort to discredit the country or to sow division among Mexicans.

Those are the political and legal instruments to guarantee the purity and legality of the elections. Let us strengthen them with participation and organization.

It is my responsibility to keep the administration going. I have a mandate to fulfill. I will do it tirelessly to the last day of my term in office. More than a sixth of my term still remains. The government will make a deep commitment to the tasks it has undertaken, without slackening its pace. There will be order, administrative discipline, perseverance, and consistency. The government and the society must continue to work together eagerly and continuously. We must increase efficiency and productivity and avoid waste at all levels — the Republic demands frugality. It is fundamental for Mexico that resources are used for productive investment, to create development infrastructures, to ensure the well-being of all, and to forge ahead. I encourage all social sectors to make a greater effort to consolidate the progress achieved and to make the great task of national renovation permanent.

All Mexicans have a duty with which they must comply. Mexico relies on the work of society, not only of the government. I firmly believe in my fellow citizens. I am familiar with Mexico's history of perseverence and deep nationalism. I admire the feats of a people who have never been defeated by the worst crises. I am daily surprised by the Mexican people's temperament. I fully trust Mexico's youth. Mexico is great, and so is its destiny. Victory will be ours.

As president, I will be politically wise and abide by our institutions. I will continue my term by abiding by the law. I will do it to continue to renovate the nation and to introduce a new stage of longer-range, steady development. I will do it to preserve Mexico's sovereignty and independence. I will continue to make good the guarantees of social justice inscribed in the Constitution and which are demanded by the people. I will do it to strengthen the revolution. I will do it with lasting zeal. I will do it to serve Mexico, my great passion and my only commitment. Long live Mexico! [applause]